Consolidated Financial Statements
(Expressed in Canadian dollars)

McVICAR INDUSTRIES INC.

For years ended December 31, 2011 and 2010

Collins Barrow
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
McVicar Industries Inc.

We have audited the accompanying consolidated financial statements of McVicar Industries Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended December 31, 2011 and December 31, 2010 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of McVicar Industries Inc. and its subsidiaries, as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants

April 30, 2012
Toronto, Ontario

MCVICAR INDUSTRIES INC.

Consolidated Statements of Income

For the years ended December 31, 2011 and 2010

(Expressed in Canadian dollars)

	Notes	2011	2010 (Note 24)
		$	$
Sales			
Sales of products - chemical		11,735,000	13,292,427
Sales of products - technical		16,032,317	20,168,721
Sales of chemical products purchased for resale		2,343,090	-
Total sales		30,110,407	33,461,148
Costs of goods sold - chemical		(8,330,149)	(8,827,718)
Costs of goods sold - technical		(11,805,094)	(14,940,023)
Costs of goods resold - chemical		(2,213,798)	-
Total costs of goods sold		(22,349,041)	(23,767,741)
Gross profit		7,761,366	9,693,407
General and administrative expenses	9	(6,049,782)	(6,592,439)
Loss on disposal of equipment		-	(66,793)
Impairment of intangible assets	14	-	(238,720)
Impairment of goodwill	14	(2,701,413)	-
Foreign exchange gain		-	(70,517)
Other income		30,660	329,262
Unrealized loss on short term investments	5	(177,992)	(207,017)
(Loss) income from investment in associates	8	(60,763)	124,616
(Loss) income before income taxes		(1,197,924)	2,971,799
Income taxes	22	(128,191)	(94,995)
Net (loss) income		(1,326,115)	2,876,804
Net income attributable to non-controlling interests		469,981	1,332,909
Net (loss) income attributable to shareholders of the Company		(1,796,096)	1,543,895
		(1,326,115)	2,876,804
Basic and diluted (loss) earnings per share		(0.049)	0.043
Weighted average number of shares outstanding			
Basic and diluted		36,388,620	35,980,334

See accompanying notes to consolidated financial statements.

MCVICAR INDUSTRIES INC.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2011 and 2010

(Expressed in Canadian dollars)

	2011	2010 (Note 24)
	$	$
Net (loss) income for the year	(1,326,115)	2,876,804
Other comprehensive income (loss)		
Currency translation differences	2,008,198	(997,872)
Comprehensive income	682,083	1,878,932
Comprehensive income attributable to non-controlling interests	1,102,364	1,116,370
Comprehensive income attributable to shareholders of the Company	(420,281)	762,562
	682,083	1,878,932

See accompanying notes to consolidated financial statements.

MCVICAR INDUSTRIES INC.

Consolidated Statements of Financial Position
as at
(Expressed in Canadian dollars)

	Notes	December 31, 2011	December 31, 2010 (Note 24)	January 1, 2010 (Note 24)
Assets				
Current assets				
Cash and cash equivalents		8,856,129	6,571,900	6,864,021
Short-term investments	5	2,737,583	2,896,962	2,826,566
Trade receivables	6	8,404,043	8,885,840	8,020,280
Inventories	7	8,462,698	7,176,163	7,056,056
Due from related parties	9	56,367	363,178	916,776
Other current assets		949,132	1,447,916	867,398
		29,465,952	27,341,959	26,551,097
Restricted cash	10	2,100,800	1,056,300	1,447,143
Due from related parties	9	-	1,079,081	-
Investments in associates	8	82,390	494,847	-
Property, plant and equipment	11	10,156,028	9,208,731	10,925,857
Investment property	12	1,236,194	-	-
Intangibles	14	-	26,880	515,574
Goodwill	14	3,999,321	6,393,635	6,495,323
Deferred income tax asset	22	971,140	746,300	371,100
		48,011,825	46,347,733	46,306,094
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		4,204,844	3,908,536	6,013,615
Short-term borrowings	10	4,201,600	2,112,600	2,776,871
Income taxes payable		196,274	250,776	311,285
Deferred revenue	12	41,662	-	-
Due to related parties	9	190,330	714,792	-
		8,834,710	6,986,704	9,101,771
Deferred income tax liability	22	689,292	760,882	744,336
		9,524,002	7,747,586	9,846,107
Shareholders' equity				
Share capital	16(a)	26,089,267	27,402,375	26,052,375
Warrants		-	-	1,483,048
Contributed surplus		915,714	943,301	687,776
Accumulated other comprehensive income (loss)		594,482	(781,333)	-
Retaied earnings (deficit)	17	1,199,996	2,185,643	(1,752,072)
Equity attributable to shareholders		28,799,459	29,749,986	26,471,127
Non-controlling interests of the Company		9,688,364	8,850,161	9,988,860
		38,487,823	38,600,147	36,459,987
Commitments and contigencies	18			
Events after the reporting period	23			
		48,011,825	46,347,733	46,306,094

Approved on behalf of the Board

Signed: "Dr. James Misener", Director

Signed: "Gang Chai", Director

See accompanying notes to the consolidated financial statements.

MCVICAR INDUSTRIES INC.

Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars, except shares)

	Notes	Share Capital Shares	Share Capital Amount	Warrants	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total shareholders' equity	Non-controlling Interests	Total equity
			$	$	$	$	$	$	$	$
Balance at January 1, 2010 (Note 23)		34,427,320	26,052,375	1,483,048	687,776	-	(1,752,072)	26,471,127	9,988,860	36,459,987
Warrants expired		-	-	(1,483,048)		-	1,483,048	-	-	-
Shares issued for cash	15(a)	3,000,000	1,350,000	-	-	-	-	1,350,000	-	1,350,000
Acquisition of interests in subsidiaries	12	-	-	-	-	-	717,370	717,370	(2,356,446)	(1,639,076)
Net income		-	-	-	-	-	1,543,895	1,543,895	1,332,909	2,876,804
Stock-based compensation	15(b)	-	-	-	333,277	-	-	333,277	-	333,277
Options expired	15(b)	-	-	-	(40,662)	-	40,662	-	-	-
Stock-based compensation of subsidiary		-	-	-	115,650	-	-	115,650	101,377	217,027
Options expired in subsidiary		-	-	-	(152,740)	-	152,740	-	-	-
Other comprehensive loss		-	-	-	-	(781,333)	-	(781,333)	(216,539)	(997,872)
Balance at December 31, 2010 (Note 23)		37,427,320	27,402,375	-	943,301	(781,333)	2,185,643	29,749,986	8,850,161	38,600,147
Adjustment for treasury stock purchased and cancelled	15	(1,793,500)	(1,313,108)	-		-	419,957	(893,151)	-	(893,151)
Net (loss) income		-	-	-	-	-	(1,796,096)	(1,796,096)	469,981	(1,326,115)
Stock-based compensation	15(b)	-	-	-	65,428	-	-	65,428	-	65,428
Options expired	15(b)	-	-	-	(41,481)	-	41,481	-	-	-
Stock-based compensation of subsidiary		-	-	-	18,724	-	-	18,724	14,592	33,316
Options expired of subsidiary		-	-	-	(70,258)	-	70,258	-	-	-
Changes in interests in subsidiary	12	-	-	-	-	-	278,753	278,753	(278,753)	-
Other comprehensive income		-	-	-	-	1,375,815	-	1,375,815	632,383	2,008,198
Balance at December 31, 2011		**35,633,820**	**26,089,267**	**-**	**915,714**	**594,482**	**1,199,996**	**28,799,459**	**9,688,364**	**38,487,823**

See accompanying notes to consolidated financial statements.

MCVICAR INDUSTRIES INC.

Consolidated Statements of Cash Flows
For the years ended December 31, 2011 and 2010
(Expressed in Canadian dollars)

	Notes	2011	2010
		$	$
Operating activities			
Net (loss) income		(1,326,115)	2,876,804
Items not involving cash			
Amortization		975,406	1,335,070
Provision for doubtful accounts		204,013	(96,041)
Inventory provision		218,508	140,922
Loss on disposal of property, plant and equipment		89,846	66,793
Impairment of intangible assets		-	238,720
Impairment of goodwill		2,701,413	-
Deferred income taxes		(233,006)	(349,544)
Stock-based compensation expenses		98,744	550,304
Unrealized loss on short term investments		177,992	207,017
Loss (income) from investments in associates		60,763	(124,616)
Due to and from related parties		(66,498)	798,611
Changes in non-cash working capital		396,207	(4,804,235)
Net cash generated from operating activities		3,297,273	839,805
Investing activities			
Acquisitions	13	(1,412,107)	(1,812,169)
Cash from (purchase of) short-term investments		167,847	(307,640)
Cash acquired in business combination	8	14,085	
Proceeds on disposal of property, plant and equipment		42,148	850,156
Additions of property, plant and equipment		(1,350,051)	(921,394)
Net cash used in investing activities		(2,538,078)	(2,191,047)
Financing activities			
(Increased) decrease in restricted cash		(918,600)	371,115
Change in short-term borrowings		1,998,800	(608,400)
Repayment of non-current loans		-	(17,352)
Issuance of share capital		-	1,350,000
Government compensation, net of moving costs		111,797	82,402
Net cash generated from financing actitvities		1,191,997	1,177,765
Increase in cash		1,951,192	(173,477)
Cash and cash equivalents, beginning of year		6,571,900	6,864,021
Effect of exchange rate changes on cash and cash equivalents		333,037	(118,644)
Cash and cash equivalents, end of year		8,856,129	6,571,900
Supplemental cash flow information			
Interest paid		771	8,215
Income taxes paid		467,976	663,709

See accompanying notes to consolidated interim financial statements.

1. General information

McVicar Industries Inc. (the "Company" or "McVicar") was incorporated under the Business Corporations Act (Ontario) on February 19, 2003 with its head office located at Suite 605, 55 University Avenue, Toronto, Ontario, M5J 2H7. Its shares are listed on the Toronto Stock Exchange Venture ("TSXV"). The Company holds a 100% (2010 – 100%) interest in its Hong Kong subsidiary, McVicar (Hong Kong) Advanced Materials Co. Ltd. ("MAM") and a 56.2% (2010 - 54.7%) interest in a Canadian publicly listed company JITE Technologies Inc. ("JITE"). The Company operates in two different segments: the chemical industry and the technology industry.

2. Significant accounting policies:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). As these financial statements represent the Company's initial presentation of its annual results and financial position under IFRS, they were prepared in accordance with IFRS 1, First-time Adoption of IFRS. These accounting policies are based on the IFRS standards and IFRIC interpretations that are applicable at December 31, 2011.

The Company's consolidated financial statements were previously prepared in accordance with Canadian GAAP. Canadian GAAP differs in some areas from IFRS. In preparing these financial statements, management has amended certain accounting, valuation and presentation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Note 23 provides reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, deficit and comprehensive loss.

The significant accounting policies are summarized as follows. All amounts in these consolidated financial statements are in Canadian dollars unless indicated with "RMB" to represent the Chinese Renminbi, a "U.S. $" to represent the U.S. dollar, and "HKD" to represent the Hong Kong dollar.

(b) Principles of consolidation:

The consolidated financial statements of the Company include the accounts of the Company and its subsidiaries. The principal subsidiaries of the Company are:

(i) JITE is a publicly listed company on the TSX-V (as "JTI"). JITE has a wholly owned subsidiary, Jite (Hong Kong) Limited ("Jite Hong Kong"), which owns 100% of Jite Industrial (Shenzhen) Co. Ltd. ("Jite Shenzhen"), 100% of Jite Industrial (Kunshan) Co., Ltd. ("Jite Kunshan") and 100% of Shenzhen Relisen Electronic Co., Ltd. ("Relisen"). The core business of JITE is the development, manufacture and sales primarily in North America and China of terminal blocks used in security, elevator, railway and automation systems.

2. Significant accounting policies (continued):

(b) Principles of consolidation (continued):

(ii) MAM, whose major operating subsidiary companies are a 100% owned Zhejiang Hongbo Chemical Co. Ltd. ("Hongbo"), a 92% (2010 - 92%) owned Hangzhou Changlong Chemical Co. Ltd. ("Changlong"), a 100% owned McVicar (Hang Zhou) Management Co. Ltd., ("McVicar (HZ)"), an indirect 80% interest in Luyuan Chemical Co. Ltd. ("Luyuan") which is held by Hongbo, and 70% in its newly incorporated subsidiary McVicar (Kunshan) New Materials Co., Ltd. The principal activities of all these chemical subsidiaries are the development, manufacture and sales of specialized refined chemical products used in pharmaceutical and cosmetic industries both in China and international markets.

(c) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for certain assets, liabilities and financial instruments which are measured at their fair values, as explained in the relevant accounting policies set out below.

(d) Cash and cash equivalents:

Cash and cash equivalents consist of cash and investments in Guaranteed Investment Certificates ("GIC") at a major Canadian chartered bank with original maturities of three months or less.

(e) Investments:

Short-term investments consist primarily of investments in GICs with original maturities of greater than three months but less than one year and in shares of publicly traded companies both in Canada and China.

Investments in associates are long-term investments that the Company has significant influence and are recorded using the equity method.

(f) Business combinations, goodwill and non-controlling interests:

The acquisition method of accounting is used to account for the acquisition of subsidiaries and businesses as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus transaction costs;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill; and
- if the acquisition cost is less than the fair value of the net assets acquired, the difference is recognized as gain directly in the income statement.

2. Significant accounting policies (continued):

(f) Business combinations, goodwill and non-controlling interests (continued):

For each business combination, the acquirer measures the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to its fair value as at the acquisition date through profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Transactions with non-controlling interests are treated as transactions with equity owners of the Company. For purchases from non-controlling interests that do not involve loss of control, the difference between the consideration paid and the share of the carrying value of net assets acquired is recorded in equity. Similarly, gains or losses on disposals to non-controlling interests, that do not involve loss of control, are computed and also recorded in equity.

(g) Property, plant and equipment:

Property and equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Costs comprise the fair value of consideration given to acquire or construct an asset and include the direct charges associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Depreciation of property, plant and equipment commences when the assets are ready for their intended use. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs, less residual value, over their estimated useful lives, as follows:

Buildings – power system component	20 years
Buildings – elevator system	20 years
Buildings – other	44.5 years
Land use rights	44.5 years
Office equipment	5 years
Leasehold improvements	5 years
Manufacturing equipment	10 years
Transportation equipment	5 years
Other equipment	5 years
Metal and plastic moulds	5 years

2. Significant accounting policies (continued):

(g) Property, plant and equipment (continued):

Construction in progress represents plant and machinery under construction and is stated at cost. Cost comprises directly attributable costs of acquisition or construction, net of any income received towards the construction in progress. Interest expense incurred for qualifying assets are capitalized.

Assets under construction are not depreciated. Completed items are transferred from construction in progress to proper categories of plant and equipment when they are ready for their intended use.

The estimated useful lives, residual values and depreciation method are reviewed at each period end, with the effect of any changes in estimate accounted for on a prospective basis.

(h) Stock-based payments:

The Company has a stock-based compensation plan that is described in note 15(b). Share-based payments to employees and others providing similar services are measured at the fair value of the instruments issued at the grant date and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received, or the fair value of the equity instrument issued if it is determined that the fair value of the goods or services received cannot be reliably measured, and are recorded at the date the goods or services are received.

Non-market vesting conditions are considered in making assumptions about the number of awards that are expected to vest. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. The offset to the recorded cost is to contributed surplus. Considerations received on the exercise of warrants and stock options are recorded as share capital and the related value of warrants or options is transferred to share capital.

At each balance sheet date, the Company reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of any revision in the income statement with a corresponding adjustment to equity as appropriate.

2. Significant accounting policies (continued):

(i) Share issue costs:

Costs incurred for the issue of common shares are deducted from share capital.

(j) Impairment of non-current assets:

Non-financial assets with finite lives are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. In addition, non-current assets that are not amortized including goodwill, are subject to an annual impairment assessment. Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount within earnings of continuing or discontinued operations, as appropriate. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units" or "CGUs"). The Company evaluates impairment losses for potential reversals, when events or changes in circumstances warrant such consideration.

(k) Earnings per share:

Basic earnings per share is computed by dividing income for the year attributable to shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by dividing the income attributable to shareholders for the year by the weighted average number of common shares and potential common shares outstanding during the year. Potential common shares, which are the incremental common shares issuable upon the exercise of share options, are included in the computation of diluted earnings per share to the extent such shares are dilutive.

In 2011 and 2010, stock options had no dilutive effect.

(l) Income taxes:

The tax expense for the period comprises current and deferred tax. Tax expense is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the corresponding tax expense is also recognized in other comprehensive income or directly in equity respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted on the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income.

2. Significant accounting policies (continued):

(l) Income taxes (continued):

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(m) Foreign currency translation:

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

2. Significant accounting policies (continued):

(m) Foreign currency translation (continued):

The financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The functional currency of the Company, Jite and MAM are Canadian dollar. The functional currency of Jite Hong Kong is Hong Kong dollars. The functional currency of the Company's subsidiaries in China is the RMB. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions as well as monetary assets and liabilities not denominated in the functional currency of the subsidiary which are translated at the year-end exchange rate are recognized in the income statement. Non-monetary items in a foreign currency are measured based on historical cost and translated using the exchange rate at the date of the transaction.

Assets and liabilities of entities (“foreign operations”) with functional currencies other than Canadian dollars are translated to Canadian dollars at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity.

Additionally, foreign exchange gains and losses related to certain intercompany loans that are part of a net investment in foreign operations are included in accumulated other comprehensive income.

(n) Revenue recognition:

(i) Sale of products

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of product is recognized upon shipment, when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the Company; and the costs incurred or to be incurred in respective of the transaction can be measured reliably. The transfer of risks and rewards occurs based on the terms of the sales contract. The Company sells its products at agreed upon prices to its customers, which reflect prevailing market prices.

(ii) Rental income

Rental income under operating leases is recognized on a straight line basis over the terms of the respective leases, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payment receivable. Contingent rentals are recognized as income in the accounting period in which they are earned. Rental deposit is recognized as deferred revenue on the statements of financial position and transferred to income when incurred.

2. Significant accounting policies (continued):

(n) Revenue recognition (continued):

(iii) Interest income

Interest income is recorded on an accrual basis.

(o) Intangible assets:

Intangible assets are recorded at their fair value at the acquisition date. The Company has finite life intangible assets. Intangible assets with a finite life are amortized over the useful life of the assets on a straight-line basis. The estimated useful lives of intangible assets are as follows:

Non-contractual customer relationships	5 years
Below market lease agreements	9 years

(p) Inventories:

Inventories include raw materials, parts and work in progress, and finished goods. Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes material, labour and production overhead, and net realizable value is the anticipated selling price over costs to sell and replacement cost for raw materials. Reversal of previous write-downs is required when there is a subsequent increase in the value of inventories.

(q) Provisions:

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each balance sheet date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

(r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2. Significant accounting policies (continued):

(s) Investment property

Investment property, which is property held to earn rentals and for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and accumulated impairment losses. When parts of an item of investment property have different useful lives, they are accounted for as separate items (major components) of investment property. Depreciation of investment property commences when the assets are ready for their intended use. Depreciation is provided to the costs of the assets less their residual values over their estimated useful lives. The estimated useful lives, residual values and depreciation method are reviewed at each period end, with the effect of any changes in estimate accounted for on a prospective basis.

(t) Government grant and compensation:

Government grant in assistance for the purchase of plant asset is recorded as a reduction to the plant asset costs.

Government compensation for impairment loss to plant assets expropriated is recorded as income when the compensation becomes receivable.

Government assistance for general purposes is recognized into income statement when the assistance is received or receivable and the Company has reasonable assurance that the Company will comply with the conditions attaching to it.

(u) Financial instruments:

Financial assets

Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

Financial assets at fair value through profit and loss (“FVTPL”)

- Classification

  Financial assets are classified as fair value through profit or loss if acquired principally for the purpose of selling in the short-term, such as financial assets held for trading, or if so designated by management.

2. Significant accounting policies (continued):

(u) Financial instruments (continued):

Financial assets at fair value through profit and loss ("FVTPL") (continued)

- Recognition and measurement

  Financial assets carried at fair value through profit or loss are initially recognized, and subsequently carried, at fair value, with changes recognized in the income statement. Transaction costs are expensed. Assets in this category include short-term investments.

Loans and receivables

- Classification

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Assets in this category include "trade receivables", and "due from related parties" and "cash and cash equivalents" and "restricted cash".

- Recognition and measurement

  Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Available-for-sale financial assets

- Classification

  Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in other non-current financial assets unless management intends to dispose of the assets within 12 months of the end of the reporting period.

- Recognition and measurement

  Available-for-sale financial assets are initially recognized at fair value plus transaction costs and are subsequently carried at fair value with changes recognized in other comprehensive income. Upon sale or impairment, the accumulated fair value adjustments recognized in other comprehensive income are included in the income statement.

Impairment of financial assets

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset is impaired. Impairments are measured as the excess of the carrying amount over the fair value and are recognized in the income statement.

2. Significant accounting policies (continued):

(u) Financial instruments (continued):

<u>Financial liabilities</u>

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 – Financial Instruments: Recognition and Measurement are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include accounts payables and accrued liabilities, short term borrowings, and due to related parties.

Fair value measurement

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

Short-term investments are measured as level 1.

2. Significant accounting policies (continued):

(u) Financial instruments (continued):

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

- Financial liabilities at fair value through profit or loss

  Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

  Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in income statement.

  The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

- Interest-bearing loans and borrowings

  After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the EIR amortization process.

  Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in profit or loss.

  The Company's financial liabilities comprising short-term borrowings, due to related parties and accounts payable and accrued liabilities are subsequently measured at amortized cost.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3. Standards issued but not yet effective:

IFRS 9 Financial Instruments: Classification and Measurement

The IASB has issued IFRS 9 - *Financial Instruments (Classification and Measurement),* which is mandatory for accounting periods beginning January 1, 2015.

IFRS 10, 11, 12 and 13 were all issued in May 2011. IFRS 10 Consolidated Financial Statements replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation — Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. IFRS 11 Joint Arrangements introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. It eliminates the option of accounting for jointly controlled entities by using proportionate consolidation. IFRS 12 Disclosure of Interests in Other Entities requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. IFRS 10, 11 and 12 are mandatory for accounting periods beginning January 1, 2013.

IFRS 13 Fair Value Measurement replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value. IFRS 13 is mandatory for accounting periods beginning January 1, 2013.

The Company has not yet determined the anticipated adoption date and impact of these standards on its financial statements.

4. Critical accounting estimates and judgements:

The preparation of financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets and liabilities and most critical judgments in applying accounting policies.

Allowance for doubtful accounts

The Company must make an assessment of whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer creditworthiness, current economic trends and past experience. Amounts past due is based on balances exceeding the agreed upon credit period. If future collections differ from estimates, future earnings would be affected. See Note 6.

4. Critical accounting estimates and judgements:

Inventory

In determining the net realizable amount of inventory the Company needs to estimate the saleability of the inventory, the price of sales, and the costs to sell. Changes in assumptions about these factors could affect the reported fair value of inventory.

Residual value and useful lives of property and equipment, and investment property

The Company estimates the residual value and useful lives of property and equipment, and investment property, at the end of each reporting period. The results will impact the depreciation costs recorded in the period and future periods.

Impairment of assets

An assessment is carried out at each reporting date to determine whether there is objective evidence that a current or non-current asset, other than properties carried at revalued amounts, is impaired. If any such indication exists, any impairment loss is determined and recognized as follows:

For current receivables carried at amortized cost, the impairment loss is recognized when there is objective evidence of impairment and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Company about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor. If in a subsequent period the amount of impairment loss decreases, the impairment loss is reversed through profit or loss. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years.

4. Critical accounting estimates and judgements:

Income taxes

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. To the extent that forecasts differ from actual results, adjustments are recorded in subsequent periods.

Uncertain tax positions

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations during the course of business for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date, liabilities in excess of the Company’s provisions could result from audits by, or litigation with relevant tax authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Fair value

Where the fair value of financial assets and financial liabilities and the fair value of stock based payments recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model and stock options and warrants valuation model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments on the discounted cash flow model include considerations of inputs such as liquidity risk, credit risk and volatility. The judgments on the measurement of stock options and warrants valuation include dividends, life of the instruments, volatility and vesting of options. Changes in assumptions about these factors could affect the reported fair value of financial instruments and the equity instruments.

Fair values related to assets acquired and liabilities assumed in a business combination are determined using external appraisal or where appropriate, they are based on valuation technique.

(Expressed in Canadian dollars, unless otherwise indicated)

5. Short-term investments:

The Company engaged a consulting company that was controlled by the Chief Executive Officer of the Company and to manage certain investment in shares of publicly traded companies under the Company's name. Pursuant to the terms of the agreement, the consulting company guaranteed the value of the initial amount of the portfolio investment of $775,680 (RMB4,800,000) and would be compensated 20% of any net gains in the portfolio when realized. In December 2011, the agreement was terminated by both parties after the consulting company had offset the loss of $161,600 incurred at the date of termination against the Company’s short-term borrowing from the consulting company in the same amount. See note 9. As at December 31, 2011, the market quoted value of these investments was $749,056 (RMB 4,635,246) (2010: $617,426; RMB4,091,622, 2009: $797,134; RMB5,199,830), which was included in the balance of short-term investments. The balance of these investments at December 31, 2010 was recorded at guaranteed cost value.

6. Trade and receivables:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Trade receivables	8,893,403	9,208,268	8,438,247
Allowance for doubtful debts	(489,360)	(322,428)	(417,967)
	8,404,043	8,885,840	8,020,280

The Company performs periodic credit reviews of its customers and customer credit is extended following an evaluation of creditworthiness. The credit terms granted to different customers range from 30 days to 150 days. The Company performs ongoing credit evaluations of its customers, but does not require collateral to support customer accounts receivable. No interest is charged on trade receivables outstanding. The Company establishes an allowance for doubtful accounts based on the credit risk applicable to particular customers, historical experience and other information. Trade receivables disclosed above include amounts that are past due at the end of the reporting period but against which the Company has not recognized an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable.

(Expressed in Canadian dollars, unless otherwise indicated)

6. Trade and receivables (continued):

As at December 31, 2011, trade receivables from one customer was 18% (2010 – another customer 22%) of total trade and other receivables. As at December 31, 2011 around 77% (2010 - 71%) of trade and other receivables are outstanding for less than 90 days. Allowance for doubtful debts is as follow:

Allowance for doubtful debts

	2011	2010
	$	$
Balance at beginning of the period	322,428	417,967
Provision for doubtful accounts	264,354	-
Bad debt recovery	(60,341)	(96,041)
Foreign exchange gain (loss)	(37,081)	502
	489,360	322,428

7. Inventories:

	December 31, 2011	December 31, 2010	January 1, 2010
Raw materials	$ 1,099,568	$ 1,165,441	1,667,846
Parts and work in process	2,662,086	2,135,424	1,761,806
Finished goods	4,701,044	3,875,299	3,626,404
	$ 8,462,698	$ 7,176,163	7,056,056

The amount of inventory recognized as expense during the year ended December 31, 2011 was $22,349,041 (2010: $23,767,741). The Company recorded a provision of $1,007,846 (2010: $796,694; 2009: $760,584) for slow moving inventory and reversed an impairment of $7,356 (2010: $104,812) related to 2008 finished goods inventory written off and subsequently sold.

(Expressed in Canadian dollars, unless otherwise indicated)

8. Investments in and acquisition of associates:

	Ownership percentage	December 31, 2010	Investment income (loss)	Disposal/ acquisition	Foreign exchange	December 31, 2011
Shenzhen Relisen Electronic Co., Ltd. ("Relisen")	40*	$ 416,281	$ (232,934)	$ (183,347)	$ -	$ -
Shenzhen Delicheng Technologies Co., Ltd. ("Delicheng")	30	62,996	14,142	-	5,252	82,390
Shenzhen Jietexing Electronics Co., Ltd. ("Jietexing")	20*	15,570	(487)	(15,083)	-	-
		$ 494,847	$ (219,279)	$ (198,430)	$ 5,252	$ 82,390

* During the year the Company acquired Relisen to be a 100% owned subsidiary, and disposed of the 20% of Jietexing.

	Ownership percentage	January 1, 2010	Investments	Investment income	Foreign exchange	December 31, 2010
Shenzhen Relisen Electronic Co., Ltd. ("Relisen")	40	$ –	$ 301,800	$ 115,464	$ (983)	$ 416,281
Shenzhen Delicheng Technologies Co., Ltd. ("Delicheng")	30	–	54,324	8,672	-	62,996
Shenzhen Jietexing Electronics Co., Ltd. ("Jietexing")	20	–	15,090	480	-	15,570
		$ –	$ 371,214	$ 124,616	$ (983)	$ 494,847

During 2010, Jite Shenzhen executed a plan for reforming the manufacturing structure and spinning off certain parts of manufacturing to employee ownership See (a) to (c) below.

(a) Relisen was incorporated in 2010 to take over the tooling and moulding and parts production of Jite Shenzhen. On Relisen's incorporation Jite Shenzhen acquired a 40% interest through the investment of equipment into Relisen with a net book value of approximately $301,800 (RMB2,000,000). The remaining 60% interest in Relisen was owned by unrelated third parties. Jite Shenzhen subsequently in 2010 sold equipment to Relisen with a net book value of $786,131 (RMB5,108,066) in consideration of cash. Jite Shenzhen further sold materials inventory to Relisen with a net book value of $1,324,300 (RMB8,776,013) in consideration for a loan receivable of the same amount with monthly payment terms of $31,142 (RMB204,750), commencing January 1, 2011, bearing interest of 5.76%, maturing on December 31, 2014 (note 8(d)).

(Expressed in Canadian dollars, unless otherwise indicated)

8. Investments in and acquisitions of associates (continued):

In the first 6 months in 2011 the Company recorded a $232,934 equity investment loss from Relisen. In July 2011, the Company reached an agreement with other shareholders of Relisen to acquire the remaining 60% of Relisen. After the transaction the Company owns 100% of Relisen. The price for the 60% interest of Relisen was $520,960 (RMB3,200,000) that were to be made on three instalments, of which $52,096 (RMB320,000) was paid on signing of the agreement, $416,768 (RMB2,560,000) on the close of the transaction, and $52,096 (RMB320,000) nine months after the signing of the agreement. As at December 31, 2011 the unpaid balance was $133,320 (RMB825,000) that was paid subsequent to the year end.

The Company uses step acquisition accounting for the acquisition. The Company has determined that the ownership interest of the 40% of Relisen held before the acquisition had a fair value of $347,601 (RMB2,135,145) at the date of acquisition. The identified assets and liabilities of Relisen at acquisition are as follows:

	$	RMB
Cash	14,085	86,515
Accounts receivable	7,465,286	4,700,772
Inventories	1,194,563	7,337,608
Equipment	1,456,509	8,878,303
Accounts payable	(2,119,524)	(13,019,190)
Due to related parties	(298,998)	(1,836,597)
Other current liabilities	(231,148)	(1,419,828)
Deferred tax asset	99,353	610,277
	880,125	5,337,863

The Company recorded a gain of $158,816 (RMB975,531) from the step acquisition.

(b) Delicheng was incorporated in 2010 to take over the screws manufacturing of Jite Shenzhen. Jite Shenzhen acquired on Delicheng's incorporation a 30% interest through the investment of equipment into Delicheng with a net book value of approximately $54,324 (RMB360,000). The remaining 70% interest in Delicheng is owned by unrelated third parties. Jite Shenzhen subsequently sold equipment to Delicheng with a net book value of $59,340 (RMB385,575) in consideration of cash. Jite Shenzhen further sold materials inventory to Delicheng with a net book value of $106,959 (RMB708,808) in consideration for a loan receivable of the same amount with monthly payment terms of RMB30,000 commencing January 1, 2011, bearing interest of 5.76%, maturing on December 31, 2012 (note 9(e)).

(c) Jietexing was incorporated in 2010 as a sales agent to serve some small customers of Jite Shenzhen. Jite Shenzhen acquired on Jietexing's incorporation a 20% interest through the investment of cash into Jietexing of $15,090 (RMB100,000). The remaining 80% interest was owned by an unrelated third party. In the year 2011 the Company disposed of the 20% interest in Jietexing to the other shareholder for RMB 100,000 with no material gain or loss.

(Expressed in Canadian dollars, unless otherwise indicated)

9. Related party transactions:

(a) Included in general and administration expenses is $50,000 (2010: $50,000) charged in 2011 by a company controlled by the Chief Executive Office of the Company for consulting fees related to management and strategic planning services.

(b) Included in due from related parties assets as at December 31, 2011 are employee loans outstanding in the amount of $nil (2010: $13,000).

(c) In October 2011, Jite Shenzhen borrowed $161,600 (RMB1,000,000) from the same consulting firm for short-term working capital purposes. In December 2011, the loan payable was offset against the Company's receivable from the consulting firm for the guaranteed cost value of short-term investment, see Note 5.

(d) Included in due to/from related parties as at December 31, 2010 was a loan receivable of $1,324,300 (RMB8,776,013) from Shenzhen Relisen Electronic Co., Ltd. ("Relisen"), then an associate of the Company, to Jite Shenzhen, of which $1,021,919 (RMB6,772,158) was classified as non-current. The loan bears annual interest of 5.76%. In addition, as at December 31, 2010 Jite Shenzhen had a payable of $666,632 (RMB4,417,706) to Relisen for parts purchased.

(e) Included in due to/from related parties as at December 31, 2011 was a loan receivable of $56,367 (RMB348,808) (2010 - $106,959; RMB708,808) from Shenzhen Delicheng Technologies Co., Ltd. ("Delicheng"), an associate of the Company, to Jite Shenzhen, of which $nil (2010 - $57,162; RMB 348,808) was classified as non-current. The loan bears annual interest of 5.76%. In addition, Jite Shenzhen has a payable of $44,510 (RMB275,434) (2010 - $48,160; RMB319,154) to Delicheng for screws purchased (note 8).

(f) Included in due from related parties as at December 31, 2011 was trade receivable of $nil (2010 - $94,010; RMB622,996) from Jietexing, a former associate of the Company, to Jite Shenzhen, that was current. The Company disposed of the 20% interest in Jietexing in the period in 2011.

(g) The compensation expense associated with key management and directors for employment service or similar is as follows:

	2011	2010
Salaries, consulting fees and other benefits	$ 307,371	$ 446,588
Directors' fees	22,900	24,800
Stock-based compensation expense	96,728	350,782
	$ 426,999	$ 822,170

(Expressed in Canadian dollars, unless otherwise indicated)

10. Short-term borrowings:

Hongbo, a subsidiary of the Company, maintains a credit facility with a Chinese Bank of for a total amount of $3,232,000 (RMB 20,000,000) (2010 - $3,018,000; RMB20,000,000), of which $1,858,400 (RMB11,500,000), is secured by the land use rights and facilities of Hongbo, and the remaining amount of $1,373,600 (RMB8,500,000) is guaranteed by Jite Shenzhen. The credit facility is to be used for the issuance of notes payable up to a maximum amount of $6,464,000 (RMB40,000,000). Under the terms of the facility, on issuance of notes half of the value must be deposited as cash in the bank by Hongbo and held until maturity of the notes. As at December 31, 2011, Hongbo utilized $2,100,800 (RMB13,000,000) (December 31, 2010 - $1,056,300; RMB7,000,000; January 1, 2010 - $1,379,700; RMB9,000,000) of the facility by issuing $4,201,600 (RMB26,000,000) (December 31, 2010 - $2,112,600; RMB14,000,000; January 1, 2010 - $2,759,400; RMB18,000,000) of notes payable due within six months from the dates of issuance. Included in restricted cash as at December 31, 2011 is a deposit of $2,100,800 (RMB13,000,000) (December 31, 2010 - $1,056,300, RMB7,000,000; January 1, 2010 - $1,379,700; RMB9,000,000) or half the amount of these notes payable.

11. Property, plant and equipment:

December 31, 2011	Cost	Accumulated amortization	Net book value
Land use rights	$ 1,284,944	$ 37,017	$ 1,247,927
Buildings	4,332,540	872,450	3,460,090
Leasehold improvements	765,351	713,384	51,967
Office equipment	885,391	677,216	208,175
Manufacturing equipment	4,668,680	1,525,247	3,143,433
Metal and plastic moulds	2,711,543	1,962,032	749,511
Other equipment	606,589	315,183	291,406
Transportation equipment	395,710	199,241	196,469
	$ 15,650,748	$ 6,301,770	$ 9,348,978
Construction in progress	$ 807,050	$ –	$ 807,050
	$ 16,457,798	$ 6,301,770	$ 10,156,028

(Expressed in Canadian dollars, unless otherwise indicated)

11. Property, plant and equipment (continued):

December 31, 2010	Cost	Accumulated amortization	Net book value
Land use rights	$ 1,462,105	$ 38,855	$ 1,423,250
Buildings	5,030,770	719,791	4,310,979
Leasehold improvements	696,470	564,910	131,560
Office equipment	787,987	557,026	230,961
Manufacturing equipment	2,486,994	1,000,555	1,486,439
Metal and plastic moulds	2,111,255	1,585,057	526,198
Other equipment	548,421	247,326	301,095
Transportation equipment	427,555	188,471	239,084
	$ 13,551,557	$ 4,901,991	$ 8,649,566
Construction in progress	$ 559,165	$ –	$ 559,165
	$ 14,110,722	$ 4,901,991	$ 9,208,731

January 1, 2010	Cost	Accumulated amortization	Net book value
Land use rights	$ 179,500	$ -	$ 179,500
Buildings	2,323,875	127,999	2,195,876
Leasehold improvements	937,187	397,051	540,136
Office equipment	865,840	498,143	367,697
Manufacturing equipment	3,088,769	628,161	2,460,608
Metal and plastic moulds	1,435,071	798,224	636,847
Other equipment	417,601	127,909	289,692
Transportation equipment	220,721	96,326	124,395
	$ 9,468,564	$ 2,673,813	$ 6,794,751
Construction in progress	$ 4,131,106	$ –	$ 4,131,106
	$ 13,595,670	$ 2,673,813	$ 10,925,857

(Expressed in Canadian dollars, unless otherwise indicated)

11. Property, plant and equipment (continued):

The amortization expense for the year 2011 was $975,406 (2010: $1,335,070), of which $478,589 (2010: $551,441) was included in costs of goods sold in the consolidated income statement.

(a) During the year 2010, Jite Shenzhen disposed of equipment with a net book value of $1,201,595 (RMB7,853,641) to certain associates (Note 8). During the year 2011 Jite Shenzhen acquired $1,456,509 equipment with acquisition of Relisen, see Note 8.

(b) During the year 2010, Luyuan reversed $135,810 (RMB900,000) of equipment impairment recorded in 2009 (note 18(b)).

(c) In 2009 the Company through its subsidiary Jite Kunshan, acquired buildings with land use rights of land in Kunshan, Jiangsu Province, China for the development of the Kunshan plant. The transaction was completed in 2010 and the assets are recorded as land use rights and buildings. Government assistance of $552,294 (RMB3,660,000) was received in 2010 for the purchase of the plant that is recorded as a reduction to the plant asset costs.

(d) In 2011, Jite Kunshan's buildings with a net book value of $968,124 and land use rights with a net book value of $268,070 were reclassified as investment property. See Note 12.

(e) Included in construction in progress is a payment of $366,832 (RMB2.3 million) made by Hongbo in 2005 to the local government for purchase a piece of land for the purposes of business expansion. The finalization of the full purchase of the land-use rights is still pendig.

12. Investment property:

December 31, 2011	Cost	Accumulated amortization	Net book value
Buildings	$ 1,020,783	$ 52,659	$ 968,124
Land use rights	280,836	12,766	268,070
	$ 1,301,619	$ 65,425	$ 1,236,194

On March 23, 2011 the Company signed a rental agreement to lease a building in Kunshan plant to a third party. The term of the lease is from April 1, 2011 to April 1, 2014. Annual rent is $175,824 (RMB 1,080,000). On the signing of the agreement, $102,564 (RMB630,000) was received as half year rent and one month deposit, that was recorded as deferred revenue on the consolidated statement of financial position. As at December 31, 2011 the deferred revenue was $29,573 (RMB183,000).

12. Investment property (continued):

The building and the land use rights of the building were reclassified from property, plant and equipment as investment property. The investment property is recorded at cost less accumulated amortization and impairment cost. Based on the annual rental of the agreement, the Company has determined there is no impairment loss to the investment property, and the fair value of the investment property, using a discounting cash flow method of valuation with the assumptions of an annual discount rate of 8% and 43 years of annual rental cash flow of $160,380 (pre-tax), is $1,931,495. No independent valuation of the investment property was prepared as management believes that the result will not be materially different from the above calculation using the cash flow method.

13. Acquisition and divestitures:

(a) MAM:

In December 2010, the Company finalized an arm's-length equity sale and share exchange agreement with Sanlong Holdongs Co. Ltd. ("Sanlong"), the minority interest holder in MAM. The Company and Sanlong agreed to exchange Sanlong's 9.5% ownership interest of MAM for 38% ownership interest of Changlong, and then subsequently the Company purchased 30% interest of Changlong from Sanlong for cash consideration of $995,940 (RMB6,600,000). The transaction with non-controlling interests is treated as transactions with equity owners of the Company. The Company allocated $1,114,255 to the net identifiable assets acquired. The transaction resulted in a credit of $118,315 recorded in the equity.

(b) JITE:

In the second quarter of 2010, the Company purchased 705,500 of JITE's shares on the open market for cash consideration of $243,280, representing 3.35% of JITE's shares outstanding. As a result of the acquisition the Company's interest in JITE was increased from 48.6% to 51.95%. The acquisition was accounted for as transactions with equity owners of the Company. The Company allocated $573,924 to the carrying value of the non-controlling interests acquired. The transaction resulted in a credit of $317,318 which was recorded in equity.

In the third quarter of 2010, the Company purchased 200,000 of JITE's shares on the open market for cash consideration of $122,000, representing 0.95% of JITE's shares outstanding. As a result of the acquisition the Company's interest in JITE was increased from 51.95% to 52.90%. The acquisition was accounted for as transactions with equity owners of the Company. The Company allocated $162,707 to the carrying value of the non-controlling interests acquired. The transaction resulted in a credit of $40,707 recorded in equity.

13. Acquisition and divestitures (continued):

(b) JITE (continued):

In September 2010, JITE conducted a normal course issuer bid that allowed JITE to purchase up to a maximum of 1,000,000 of its own common shares representing approximately 4.75% of its 21,073,613 issued and outstanding shares as at September 20, 2010. In the fourth quarter JITE acquired and cancelled 435,500 common shares for total consideration of $199,662 of which $142,844 was reduced to share capital of JITE and the difference recorded to equity of JITE. As a result, the Company's proportionate interest in JITE increased from 52.9% to 54.05%. Since the transaction was similar in effect to the Company acquiring an additional interest in JITE, the acquisition was accounted for as transactions with equity owner of the Company. The Company allocated $195,591 to the carrying value of the non-controlling interests acquired. The transaction resulted in a credit of $195,591 recorded in equity.

In the fourth quarter of 2010, the Company purchased 130,500 of JITE's shares on the open market for cash consideration of $64,868, representing 0.63% of JITE's shares then outstanding. As a result of the acquisition the Company's interest in JITE was increased from 54.05% to 54.68%. The acquisition was accounted for as transactions with equity owners of the Company. The Company allocated $110,307 to the carrying value of non-controlling interests acquired. The transaction resulted in a credit of $45,439 recorded in equity.

In the fourth quarter of 2010 JITE also acquired 348,000 shares of its own at $171,300. In the first quarter of 2011, JITE acquired 216,500 common shares for total consideration of $131,315. These shares were cancelled in the first quarter of 2011. $185,156 was reduced to share capital of JITE and the difference recorded to equity of JITE. As a result, the Company's proportionate interest in JITE increased from 54.68% to 56.22%. Since the transaction was similar in effect to the Company acquiring an additional interest in JITE, the acquisition was accounted for as transactions with equity owner of the Company. The Company allocated $278,753 to the carrying value of non-controlling interests acquired. The transaction resulted in a credit of $278,753 recorded into equity.

(Expressed in Canadian dollars, unless otherwise indicated)

14. Goodwill and intangible assets:

(a) Goodwill:

	Goodwill in Jite	Goodwill in MAM	Total value
Balance, January 1, 2010	$ 2,701,413	$ 3,793,910	$ 6,495,323
Foreign exchange	(42,292)	(59,396)	(101,688)
Balance, December 31, 2010	$ 2,659,121	$ 3,734,514	$ 6,393,635
Impairment	(2,701,413)	–	(2,701,413)
Foreign exchange	42,292	264,807	307,099
Balance, December 31, 2011	$ -	$ 3,999,321	$ 3,999,321

As at December 31, 2011, the Company completed its impairment test and determined, as a result of unexpected revenue declines in JITE, the goodwill in relation to the acquisition of JITE was fully impaired by $2,701,413 (2010 - $nil).

An impairment loss was recognized in Jite due to profits continuing to be lower than expected by management. Management used the fair value less costs to sell approach to determine the recoverable amount. The basis of this was based on the post year-end transactional value established by the privatization transaction that occurred in Jite in which McVicar acquired 37.47% of Jite (Note 23).

No impairment loss was recognized in MAM as the recoverable amount of MAM continues to be higher than its carrying value, based on a fair value less costs to sell model. The key assumption applied to determine the fair value was a multiplier equivalent to 8 times EBITDA.

(b) Intangible assets:

December 31, 2011	Cost	Impairment	Accumulated amortization	Carrying value
Below market lease agreement	$ 222,633	$ 97,228	$ 125,405	$ -

December 31, 2010	Cost	Impairment	Accumulated amortization	Carrying value
Non-contractual customer relationships	$ 1,201,322	$ 335,945	$ 865,377	$ –
Below market lease agreement	226,231	98,799	100,552	26,880
	$ 1,427,553	$ 434,744	$ 965,929	$ 26,880

(Expressed in Canadian dollars, unless otherwise indicated)

14. Goodwill and intangible assets (continued):

(b) Intangible assets (continued):

January 1, 2010	Cost	Impairment	Accumulated amortization	Carrying value
Non-contractual customer relationships	$ 1,220,429	$ 74,836	$ 682,864	$ 462,729
Below market lease agreement	229,829	100,370	76,614	52,845
	$ 1,450,258	$ 175,206	$ 759,478	$ 515,574

In the year 2011 the Company recorded amortization expense of $24,465 (2010: $193,818) for intangible assets.

In 2010, the Company completed an impairment analysis and determined that intangible assets related to Changlong's non-contractual customer relationships were impaired by $238,720 due to the relocation of Changlong (note 15).

15. Relocation of Changlong plant:

In 2009, the facilities at Changlong, a subsidiary of the Company, were expropriated by the local government due to municipal development requirements. Changlong, along with Longshan Chemical Co., Ltd. ("Longshan"), a Company who owns the land use rights which Changlong leases, were to be moved to a new location granted by the government. As part of the initiative, the government committed to cash compensation to the Company.

In 2009, Changlong, reached an agreement with Longshan on a new factory relocation and lease agreement of the new property. Pursuant to the agreement, the total amount of government compensation fund attributed to Changlong was RMB8,508,614, of which RMB7,232,322 was received in 2009 after the signing of the agreement, and the remaining RMB1,276,292 was received in December 2010 and January 2011. The compensation was recorded as an income when receivable. $1,208,549 (RMB7,232,322) was recorded in income statement in 2009, and $194,124 (RMB1,276,292) was recorded as income in 2010. The moving expenses as incurred of $810,991 (RMB5,331,956) in 2010 were recorded as expenses (2009: $65,089; RMB389,521).

In 2009 the Company determined the plant and equipment of Changlong were impaired and had written off $736,789 (RMB4,409,165) net book value of the plant and equipment of Changlong as impairment loss. The remaining net book value of the movable plant and equipment of Changlong was $41,712 as at March 31, 2011, the moving date (December 31, 2010 - $55,423).

During the second quarter of 2010, Changlong was required by the government to cease production activities and prepare for the relocation with Longshan, however, in December 2010, the Company's relocation and lease agreement with Sanlong was terminated.

(Expressed in Canadian dollars, unless otherwise indicated)

15. Relocation of Changlong plant (continued):

The Company reviewed the associated intangible assets for recoverability and recognized an impairment loss of $238,720 in 2010 (note 14(b)).

In 2011 Management of Changlong is in the process of relocating Changlong into the plant where Luyuan is currently operating.

16. Shareholder's equity:

(a) Authorized and issued:

The Company's authorized capital stock consists of an unlimited number of common shares.

Issued and outstanding:

		Number of
Common shares	shares	Amount
Balance, December 31, 2009	34,427,320	$ 26,052,375
Shares issued for cash (i)	3,000,000	1,350,000
Balance, December 31, 2010	37,427,320	$ 27,402,375
Shares purchased and cancelled (ii)	(1,793,500)	(1,313,108)
Balance, December 31, 2011	35,633,820	$ 26,089,267

(i) In 2010, the Company completed a non-brokered private placement of 3,000,000 common shares for gross proceeds of $1,350,000 at a price of $0.45 per share.

(ii) In January 2011 the Company conducted a normal course issuer bid (shares buy back) that allowed the Company to purchase up to a maximum of 1,800,000 of its own common shares representing approximately 4.8% of its 37,427,320 issued and outstanding shares as at January 4, 2011. In the year 2011 the Company purchased and cancelled 1,793,500 of its own shares at $893,151, of which $1,313,108 was reduced to share capital and the difference credited to retained earnings.

(Expressed in Canadian dollars, unless otherwise indicated)

16. Shareholder's equity (continued):

(b) Stock-based compensation plan:

The Company has established a common share purchase option plan for directors, officers, employees and consultants. Options are granted at a price no lower than the market price of the common shares at the time of the grant less allowable discounts.

On June 9, 2010, the Company granted 1,330,000 options to employees and directors. Each option entitles the holder to purchase one common share of the Company at an exercise price of $0.50 on or before June 8, 2015. The options are vesting within a year, with one fourth of the options vesting in each quarter after the grant date. Each tranche of one fourth of the options is considered a separate grant with a different vesting date and fair value. The grant date fair value of all the options issued has been estimated at $422,261 using the Black-Scholes option pricing model. Assumptions used to determine the value of the options issued on June 9, 2010 were: expected dividend yield - 0%; risk-free interest rate - 2.4%; expected volatility - 86%; and expected life of 5 years for each tranche. Expected volatility is assumed based on the historical volatility of the Company's shares. For the year ended December 31, 2010, $333,277 of stock-based compensation expenses was recorded in general and administrative expenses due to the vesting of the 2010 options, after adjusting for the options forfeited due to termination of employment of employee. In the year of 2011, $98,744 (2010: $550,304) stock-based compensation expenses was recorded for the 2010 options, including $33,316 (2010: $217,027) from Jite. Of the stock-based compensation expense, $98,744 (2010: $449,295) was for employees and others providing similar services and nil (2010 - $15,860) for non-employees.

A summary of the Company's options granted and exercised is presented below:

	Options Outstanding	Weighted average exercise price
Options outstanding, January 1, 2010	960,000	$ 1.10
Granted	1,330,000	0.50
Forfeited	(75,000)	0.50
Expired	(150,000)	1.10
Options outstanding, December 31, 2010	2,065,000	$ 0.74
Expired	(175,000)	1.01
Options outstanding, December 31, 2011	1,890,000	$ 0.71

(Expressed in Canadian dollars, unless otherwise indicated)

16. Shareholder's equity (continued):

(b) Stock-based compensation plan:

The following table summarizes information about the options outstanding and exercisable at December 31, 2011:

	Options outstanding		Options exercisable		
Exercise price	Outstanding number	contractual life (years)	Weighted average remaining exercise price	Weighted average Number exercisable	Remaining contractual life
$ 1.10	660,000	1.75	$ 1.10	660,000	1.75 years
0.50	1,230,000	3.42	0.50	1,230,000	3.42 years
	1,890,000	2.85	0.71	1,890,000	2.85 years

17. Retained earnings (deficit):

Pursuant to Chinese laws all foreign entities are required to set aside 10% of their net income each year as a general reserve fund and an expansion fund until the balance of the fund has reached 50% of the entity's registered capital before the retained earnings can be distributed as dividends. This fund is only eligible for distribution to shareholders at the time of winding up the foreign entity. The funds accumulated as at December 31, 2011 were $1,098,739 (RMB6,799,126) (2010 - $1,025,988; RMB6,799,126) and are included as part of retained earnings. Should the subsidiaries in China declare dividends to shareholders, they would have to accrue the funds sufficiently before distributing dividends.

18. Commitments and contingencies:

(a) Operating leases:

The Company and its subsidiaries have entered into various operating lease agreements for leased premises in the normal course of operations, with the rents being charged to operations in the year to which they relate. The consolidated minimum lease payments for all lease agreements in each of the next five years and thereafter are as follows:

	McVicar	Jite	Total
2012	$ 2,689	$ 432,658	$ 435,347
2013	-	423,275	423,275
2014	–	399,774	399,774
2015	–	399,774	399,774
2016	–	265,043	265,043
	$ 2,689	$ 1,920,524	$ 1,923,213

18. Commitments and contingencies (continued):

(b) Legal proceedings settled in Luyuan:

The Company and its subsidiaries are from time to time subject to legal actions, both as a defendant and as a plaintiff, arising in the normal course of business. The following is a summary of a significant legal matter involving the Company:

In 2008, the Company's subsidiary, Luyuan, was a defendant in seven lawsuits filed by nine individuals requesting Luyuan to repay loans and interests that were allegedly borrowed by Luyuan before being acquired by Hongbo in April 2008, and one lawsuit filed by a former employee of Luyuan for wrongful dismissal. In 2009, the local court ruled against Luyuan. The total amounts in connection with these legal proceedings determined by the court rulings was $368,292 (RMB2,402,100) of principal and $113,856 (RMB742,699) of compounded interest, and some contingent interest to be determined.

Luyuan as a limited liability company was short in cash for the payments of the obligations. Some of Luyuan's equipment with a value of RMB250,000 ($38,475) and inventory with a value of RMB334,142 ($51,424) were seized by court orders. In July 2009, the operation of Luyuan was suspended.

As at December 31, 2009, Luyuan accrued contingent liabilities of $367,200 (RMB2,400,000). In addition, Luyuan also wrote-off the value of its inventory by $90,110 (RMB597,148) and the property, plant and equipment by $153,900 (RMB1,000,000).

In the fourth quarter of 2010, the Company reached a settlement agreement and paid approximately RMB1,600,000 ($246,240) to the plaintiffs. Luyuan has resumed operations in May 2011. The plant equipment written down in 2009 was reversed by $135,810 in the year 2010 as the plant equipment became reuseable as a result of the settlement.

During 2010, the Company’s subsidiary Jite Shenzhen, made a guarantee to a local bank at a maximum amount of $1,591,370 (RMB9,775,000) for ZhejianHongbo Chemical Co. Ltd. The guarantee expired on June 22, 2011 and was renewed with new expiry date of August 16, 2012.

19. Capital management:

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company considers its capital to consist of share capital, retained earnings, accumulated other comprehensive income and contributed surplus. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Company's officers are responsible for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Company's Board of Directors is responsible for overseeing this process.

The Company manages its capital structure with the objective of providing sufficient resources to meet both operating and acquisition requirements, to make sure that the Company could grow steadily in a fast growing economy in China and maximize long-term shareholder value, while remaining a going concern. There was no change in the Company's approach to capital management during the period.

(Expressed in Canadian dollars, unless otherwise indicated)

20. Financial instruments and risk management:

Financial assets and liabilities as of December 31, 2011, December 31, 2010 and January 1, 2010 were as follows.

December 31, 2011	Cash, loans and receivables	Assets (liabilities) at fair value through earnings	Available for sale	Other financial liabilities	Total
	$	$	$	$	$
Cash and cash equivalents	8,856,129	-	-	-	8,856,129
Short term investments	-	2,737,583	-	-	2,737,583
Trade receivables	8,404,043	-	-	-	8,404,043
Due from related parties	56,367	-	-	-	56,367
Restricted cash	2,100,800	-	-	-	2,100,800
Accounts payable and accrued liabilities	-	-	-	(4,217,344)	(4,204,844)
Short term borrowings	-	-	-	(4,201,600)	(4,201,600)
Due to related parties	-	-	-	(177,830)	(177,830)
	19,417,339	2,737,583	-	(8,596,774)	13,570,648

December 31, 2010	Cash, loans and receivables	Assets (liabilities) at fair value through earnings	Available for sale	Other financial liabilities	Total
	$	$	$	$	$
Cash and cash equivalents	6,571,900	-	-	-	6,571,900
Short term investments	-	2,896,962	-	-	2,896,962
Trade and other receivables	8,885,840	-	-	-	8,885,840
Due from related parties	1,442,259	-	-	-	1,442,259
Restricted cash	1,056,300	-	-	-	1,056,300
Accounts payable and accrued liabilities	-	-	-	(3,908,536)	(3,908,536)
Short term borrowings	-	-	-	(2,112,600)	(2,112,600)
Due to related parties	-	-	-	(714,792)	(714,792)
	17,956,299	2,896,962	-	(6,735,928)	14,117,333

(Expressed in Canadian dollars, unless otherwise indicated)

20. Financial instruments and risk management:

January 1, 2010	Cash, loans and receivables	Assets (liabilities) at fair value through earnings	Available for sale	Other financial liabilities	Total
	$	$	$	$	$
Cash and cash equivalents	$ 6,864,021	$ -	$ -	$ -	$ 6,864,021
Short term investments	-	2,826,566	-	-	2,826,566
Trade and other receivables	8,020,280	-	-	-	8,020,280
Due from related parties	916,776	-	-	-	916,776
Restricted cash	1,447,143	-	-	-	1,447,143
Accounts payable and accrued liabilities	-	-	-	(6,013,615)	(6,013,615)
Short term borrowings	-	-	-	(2,776,871)	(2,776,871)
	$ 17,248,220	$ 2,826,566	$ -	$ (8,790,486)	$ 11,284,300

There was no reclassification of financial assets during the period from January 1, 2010 to December 31, 2011.

The fair value of the Company's financial assets and liabilities approximate their carrying values due to the relatively short periods to maturity of these financial instruments and normal trade credit terms (with exception of the short term investments). Short-term investments are stated at fair value, which is based upon quoted market price at December 31, 2011, December 31, 2010 and January 1, 2010.

20. Financial instruments and risk management (continued):

(a) Foreign exchange risk:

The RMB is not a freely convertible currency. The PRC State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of the RMB is subject to change in central government policies and to international economic and political developments affecting supply and demand in the PRC foreign exchange trading system market

Foreign exchange risk is the risk that changes in foreign exchange rates will affect the Company's income or value of its holdings in its holdings of financial instruments. The Company's activities that result in exposure to fluctuations in foreign currency exchange rates consist of the sale of products and purchases of materials in currencies other than functional currencies of the respective group entities.

The Company is exposed to foreign exchange rate risk from transactions, short-term borrowings and short-term investments in currencies other than Canadian dollars. A significant portion of the Company's business is carried out in U.S. dollar, HKD and RMB and the Company and its subsidiaries maintain non-Canadian currency denominated bank accounts.

At December 31, 2011, the Company is exposed to foreign currency translation risk through the following financial assets and liabilities denominated in U.S. dollar, HKD and RMB:

	US dollar	HKD	RMB
Cash and cash equivalents	5,529,656	316,418	12,901,243
Short-term investments	-	-	16,940,491
Trade receivables	2,525,595	-	35,931,913
Due from related parties	-	-	348,806
Restricted cash	-	-	13,000,000
Accounts payable and accrued liabilities	-	(90,603)	(23,878,317)
Short-term borrowings	-	-	(26,000,000)
Due to related parties	-	-	(902,351)
	8,055,251	225,815	28,341,783

The Company and its subsidiaries do not use derivative instruments to reduce its exposure to foreign currency risk.

As at December 31, 2011, with other variables unchanged, a +/-10% change in the U.S. dollar to Canadian dollar exchange rate would increase/decrease net loss for the year by approximately $570,000 and comprehensive income by $829,000, a +/-10% change in the exchange rate of HKD to Canadian dollar will increase/decrease the comprehensive income by approximately $496,000, and a +/-10% change in the exchange rate of RMB would increase/decrease the comprehensive income by approximately $2,688,000.

20. Financial instruments and risk management (continued):

(b) Credit risk:

Credit risk is the risk of financial loss due to failure of the Company's customer or counterparties to meet its contractual obligations, and arises primarily in relation to trade receivable and due from related parties. Exposure to credit risk is limited, due to the large number of customers. The Company and its subsidiaries perform regular credit assessments of its customers and provide allowances for potentially uncollectible trade receivable based on the credit risk applicable to particular customers, historical experience and other information. In addition, the Company performs periodic credit reviews of its customers, and the customer credit is extended following an evaluation of creditworthiness. All of the Company's trade receivable have been reviewed for collectability. As at December 31, 2011 approximately 77% (2010 – 71%) of trade receivables are outstanding for less than 90 days.

In 2011 two customers accounted for approximately 27% (2010 - 26%) of sales. As at December 31, 2011 one customer accounted for approximately 18% (2010 – another customer 22%) of total trade receivables.

(c) Interest rate risk:

Interest rate risk is the risk that changes in interest rates will affect the Company's income or value of the holdings of financial instruments. The Company's interest rate risk arises from short term investment balances and interest bearing debt at market interest rates. The Company's current policy is to invest excess cash in investment grade short-term deposit certificates issued by its banking institutions and in publicly traded common shares. The Company's interest rates on its debts are based on the prescribed rate of the People's Bank of China which is subject to fluctuation and may result in an increase or decrease in interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

(e) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to maintain sufficient readily available sources of funding in order to meet its liquidity requirements at any point in time. The Company achieves this by forecasting cash flows and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at December 31, 2011, the Company had cash and cash equivalents, restricted cash and short-term investments of $13,694,512 to settle current liabilities of $8,834,710.

21. Segmented information:

The Company currently operates in two operating segments:

(a) Chemical industry: develops, manufactures and supplies specialized fine chemical products used in pharmaceutical and cosmetic industries; purchases and resells chemical products; and

(b) Technology industry: designs, manufactures and supplies electronic and electrical connection devices for security, industrial control, automation and telecommunication and power supply industries.

Each segment operates as a strategic business unit with separate management. Segment performance is measured primarily upon the basis of segment operating profit. Industry and geographic segment information for the consolidated results in thousands of Canadian dollars are presented below:

(a) Segmented information:

For the year ended December 31, 2011 (in thousands of dollars):

December 31, 2011		Chemical products		Technology products		Total
Sales - trading	$	2,343	$	-	$	2,343
Sales		11,498		16,032		27,530
Gross profit - trading	$	129	$	-	$	129
Reversal of impairment		-		136		136
Impairment of goodwill		(2,701)		-		(2,701)
Gross profit		3,405		4,227		7,632
Amortization		(102)		(395)		(497)
Operating expenses - excluding amortization and impairment of goodwill		(2,971)		(2,589)		(5,560)
Operating (loss) income	$	(2,369)	$	1,379	$	(990)
Other income						31
Investment (loss)						(239)
Income tax expenses						(128)
Net loss					$	(1,326)

21. Segmented information (continued):

(a) Segmented information (continued):

December 31, 2011	Chemical products	Technology products	Total
Purchase of property, plant and equipment	$ 853	$ 497	$ 1,350
Investment property	-	1,236	1,236
Investments in associates	-	82	82
Goodwill	3,999	-	3,999
Liabilities	6,452	3,072	9,524

For the year ended December 31, 2010 (in thousands of dollars):

December 31, 2010	Chemical products	Technology products	Total
Sales	13,292	20,169	33,461
Gross profit	$ 4,464	$ 5,229	$ 9,693
Impairment of intangibles	(239)	-	(239)
Amortization	(245)	(539)	(784)
Operating expenses - excluding amortization and impairment of intangibles	(2,650)	(2,744)	(5,394)
Operating income	992	1,733	2,725
Other income			329
Investment loss			(82)
Income tax expenses			(95)
Net income			$ 2,877

21. Segmented information (continued):

(a) Segmented information (continued):

December 31, 2010	Chemical products	Technology products	Total
Purchase of property, plant and equipment	$ 381	$ 550	$ 921
Investments in associates	-	495	494
Intangible assets	-	27	27
Goodwill	3,999	-	3,999

January 1, 2010	Chemical products	Technology products	Total
Purchase of property, plant and equipment	$ 213	$ 4,048	$ 4,261
Investments in associates	-	-	-
Intangible assets	-	516	516
Goodwill	2,701	3,794	6,495

(b) Information by geographic area consisted of the following:

For the year ended December 31, 2011 (in thousands of dollars):

	Canada	US	China and Hong Kong	Other	Total
Sales	$ 3,246	$ 7,391	$ 18,107	$ 1,129	$ 29,873
Property plant and equipment	17	-	10,139	-	10,156
Investment property	-	-	1,236	-	1,236
Investments in associates	-	-	82	-	82
Goodwill	-	-	3,999	-	3,999

21. Segmented information (continued):

(b) Information by geographic area consisted of the following (continued):

For the year ended December 31, 2010 (in thousands of dollars):

	Canada	US	China and Hong Kong	Other	Total
Sales	$ 2,875	$ 2,990	$ 26,882	$ 714	$ 33,461
Property plant and equipment	17	-	9,192	-	9,209
Investment in associates	-	-	495	-	495
Intangible assets	-	-	27	-	27
Goodwill	-	-	6,394	-	6,394

22. Income taxes

The income tax expense differs from the amount expected by applying the Canadian statutory rate to earnings before income taxes for the following reasons:

	2011	2010
(Loss) income before income tax	$ (1,197,924)	$ 2,971,799
Increase (decrease) income taxes resulting from:		
Income taxes at statutory rates (2011: 28.25%; 2010: 31%)	(347,000)	921,000
Tax rate difference in foreign subsidiaries	(937,418)	(1,178,000)
Goodwill impairment	783,000	-
Gain on short-term investments	-	(137,000)
Non-deductible expenses	175,000	-
Stock-based compensation	29,000	171,000
Foreign withholding tax	130,240	120,000
Other	217,169	134,395
Unrecognized deferred taxes	78,200	63,600
	$ 128,191	$ 94,995
Income taxes (recovery):		
Current	$ 361,196	$ 444,539
Deferred	(233,006)	(349,544)
	$ 128,191	$ 94,995

(Expressed in Canadian dollars, unless otherwise indicated)

22. Income taxes (continued):

At December 31, 2011, the Company and its subsidiaries had approximately $7,374,000 of non-capital losses carried forward to reduce future years' taxable income. The deferred tax benefit of $4,512,000 of these losses has not been recognized. The non-capital losses expire as follows:

2014	628,000
2015	1,319,000
2016	1,450,000
2026	413,000
2027	451,000
2028	723,000
2029	862,000
2030	839,000
2031	689,000
	$ 7,374,000

The significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred income tax assets:			
Trade receivables	$ 57,500	$ -	$ -
Accounts payable and accrued liabilities	-	87,200	25,600
Inventories	228,300	266,300	171,700
Property, plant and equipment	90,140	135,200	56,700
Loss carry forwards	1,837,900	1,331,500	989,600
Share issuance costs	37,800	107,100	196,400
Capital loss	41,200	33,600	33,600
Other differences	1,700	30,600	79,100
Unrecognized deferred taxes	(1,323,400)	(1,245,200)	(1,181,600)
Net deferred income tax assets	$ 971,140	$ 746,300	$ 371,100

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred income tax liabilities			
Trade receivables	$ (363,500)	$ (637,885)	$ (650,039)
Inventories		-	-
Accounts payable and accrued liabilities	(65,900)	-	-
Government compensation fund	(259,892)	(122,997)	(94,297)
	$ (689,292)	$ (760,882))	$ (744,336)

23. Events after the reporting period:

(a) Subsequent to the year end on January 30, 2012 the Company announced it has entered into a support agreement with its 56.2% owned subsidiary Jite pursuant to which the Company has agreed to offer to acquire, directly or indirectly, all of the 8,788,363 outstanding common shares of Jite which it did not already own and up to an additional 1,186,000 shares issuable upon exercise of existing options of Jite for a cash price of $0.60 per share. On April 5, 2012 it announced that 7,517,256 common shares of Jite have been tendered to McVicar for cash consideration of $0.60 each share, resulting in McVicar owning 93.67% of Jite.

(b) Subsequent to year end on April 16, 2012 the Company announced it has entered into a merger agreement with its 93.67% owned subsidiary Jite pursuant to which Jite has agreed to amalgamate with 1872706 Ontario Limited, a wholly owned subsidiary of McVicar that was newly incorporated on April 12, 2012 for the amalgamation, to form a new corporation to be named Jite Technologies Inc., which will be a wholly owned subsidiary of McVicar. On the Amalgamation each outstanding Jite common share, other than those held by shareholders who exercise their dissent and appraisal rights under section 185 of the Business Corporations Act (Ontario) and by McVicar which will be cancelled, will be exchanged for one redeemable preferred share of the amalgamated corporation, which will be redeemed by the amalgamated corporation at a redemption price of $0.60 per preferred share as soon as possible following the Amalgamation. All of the issued shares of 1872706 Ontario Limited (currently held by McVicar) will be exchanged for shares of the amalgamated corporation. Consequently, completion of the Amalgamation will result in McVicar having effectively acquired 100% of the issued shares of Jite.

(c) Subsequent to December 31, 2011 the Company has entered into an agreement with the 8% shareholder of Changlong to acquire the 8% of Changlong for $323,200 (RMB2,000,000).

(d) Subsequent to year end, for completion of the Jite share purchase Offer, McVicar secured a bridge financing facility from Dr. Gang Chai, the Chief Executive Officer of McVicar, and an associate of Dr. Chai, for a principal amount of up to $1.4 million with interest at the prime rate of interest charged from time to time by the Bank of Montreal in Toronto on Canadian dollar loans to its most creditworthy customers plus one percent (1%) payable monthly in arrears on the balance outstanding from time to time. If the loan is not repaid by June 29, 2012, additional interest at the rate of 2% per month, calculated daily will be payable. The bridge financing facility is secured by a promissory note having a principal amount of CAD $1.4 million and maturing on June 29, 2012.

24. Transition to IFRS:

The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS and these financial statements were prepared as described in Note 2, including the application of IFRS 1.

IFRS 1 requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company is December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

24. Transition to IFRS:

Initial elections upon adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

IFRS exemption options

(a) Business combinations - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

(b) Currency translation differences - Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, from the date a subsidiary or equity method investee was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at transition date. The Company elected to reset all cumulative translation gains and losses to zero in opening retained earnings at its Transition Date.

(c) Share-based payments - IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date. Further, the Company applied IFRS 2 for all liabilities arising from share-based payment transactions that existed at its Transition Date.

    As a result of the transition method elected, the Company needs to re-value the fair value of 44,685 options granted by Jite to employees in 2007 that had not yet vested at the Transition Date. As the impact on the financial statements is immaterial, no adjustment was made in this regard.

(d) Borrowing costs - IAS 23, Borrowing Costs, requires an entity to capitalize the borrowing costs related to all qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. Early adoption is permitted. IFRS 1 permits a first time adopter to apply IAS 23 with an effective date of July 1, 2009 or the Transition Date, whichever is later. The Company elected this exemption and therefore, borrowing costs prior to January 1, 2010 are expensed.

IFRS Mandatory Exceptions

Set forth below are the applicable IFRS 1 exceptions applied in the conversion from Canadian GAAP to IFRS.

(a) Hedge accounting- Hedge accounting can only be applied prospectively from the Transition Date to transactions that satisfy the hedge accounting criteria in IAS 39 at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively.

24. Transition to IFRS:

IFRS Mandatory Exceptions (continued)

(b) Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Changes in accounting policies

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by the Company.

(a) Business combinations

Canadian GAAP – purchases of interests of subsidiaries that the Company has control are accounted for using purchase method. If a negative goodwill is recorded in the transaction, it is used to reduce certain non-current tangible assets with the excess recorded as a gain in the consolidated statements of operations.

IFRS – such transactions are recorded as equity transactions and the gain is recorded into equity (retained earnings).

As a result of this change in accounting policy, the $301,103 gain recorded into statements of operations for 2010 under Canadian GAAP for the business combinations in 2010 (note 12) was recorded into equity. The total effect on the equity is nil but income of the year 2010 is reduced by $301,103.

(b) Share based payments

Recognition of Expense

Canadian GAAP - For grants of share-based awards with graded vesting, the total fair value of the award is recognized on a straight-line basis over the employment period necessary to vest the award.

IFRS - Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

24. Transition to IFRS (continued):

Changes in accounting policies (continued)

(b) Share based payments (continued)

As a result of applying this change, the 1,170,000 options granted by Jite on June 9, 2010 to its employees and others providing the similar services with graded vesting terms are treated as four separate grants according to their different vesting date, and are separately fair valued. The two grants vested in 2010 were fully expensed in 2010. The total compensation expenses of Jite in 2010 were increased by $45,984 that were included in the consolidated income statement of the Company. The contributed surplus of the Company increased by $25,153 being the share of increase in Jite's stock-based compensation and the non-controlling interest increased by $20,831 as at December 31, 2010.

Also, the 1,330,000 options granted by the Company on June 9, 2010 to its employees and others providing the similar services with graded vesting terms are treated as four separate grants according to their different vesting date, and are separately fair valued. The two grants vested in 2010 were fully expensed in 2010. The total compensation expenses of the Company in 2010 were increased by $82,443 that were adjusted to contributed surplus and income statement.

(c) Impairments

Canadian GAAP – Non-current assets are measured at the lower of their carrying amount or fair value less costs to sell. The carrying amount for determining impairment includes cumulative translation adjustments.

IFRS - Assets are also measured at the lower of their carrying amount or fair value less costs to sell, but the carrying value used in the calculation excludes cumulative translation adjustments. As a result of this change in measurement methodology, there was no impact for the Company.

Recoverable Amount

Canadian GAAP - A recoverability test is performed by first comparing the undiscounted expected future cash flows to be derived from the asset to its carrying amount. If the asset does not recover its carrying value, an impairment loss is calculated as the excess of the asset's carrying amount over its fair value.

IFRS – The impairment loss is calculated as the excess of the asset's carrying amount over its recoverable amount, where recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value. There is no significant impact on the Company as a result of the change in measurement methodology.

24. Transition to IFRS (continued):

Changes in accounting policies (continued)

(c) Impairments

Reversal of Impairment

Canadian GAAP - Reversal of impairment losses is not permitted.

IFRS - Reversal of impairment losses is required for assets other than goodwill if certain criteria are met.

As a result of this change, the impairment of plant and equipment of Luyuan for the year 2009 was reversed in 2010 by $135,810. See note 10 and note 18(b).

(d) Foreign exchange translation

Canadian GAAP - The Company's foreign operations are self-sustaining foreign subsidiaries that are financially or operationally independent on the Company. The Company uses the current method to translate the accounts of its self-sustaining operations into Canadian dollars. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates for the period. The resulting exchange gains or losses are recognized in other comprehensive income.

IFRS – Assets and liabilities of foreign operations with functional currencies other than Canadian dollars are translated to Canadian dollars at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity. Additionally, foreign exchange gains and losses related to certain intercompany loans that are part of a net investment in foreign operations are included in accumulated other comprehensive income.

The two methods are basically the same and as a result there is no significant difference. As noted in the section entitled "IFRS Exemption Options," the Company has applied the one-time exemption to set the foreign currency cumulative translation adjustment ("CTA") to zero as of January 1, 2010 and adjusted to deficit.

(e) Amortization of property, plant and equipment and investment property

Canadian GAAP - The Company's policy was to commence amortization of property, plant and equipment and investment property on starting to use the asset.

IFRS – Such amortization must commence once the asset is ready for use.

Canadian GAAP – Assets (buildings) are amortized as one assets class over 44.5 years on straight-line basis.

IFRS – the significant components of an asset that have different useful lives from the asset as a whole should be amortized separately.

24. Transition to IFRS (continued):

Changes in accounting policies (continued)

(e) Amortization of property, plant and equipment and investment property (continued)

As a result of the changes, the buildings and land use rights in Jite Kunshan plant are amortized from the beginning of 2010. The power system and elevator system of the buildings are amortized separately from the buildings. The amortization expenses of Jite Kunshan plant increased by $60,015 for the year 2010.

(f) Government compensation for impairment of plant assets

Canadian GAAP – Government compensation received was recorded as a government compensation fund liability which was reduced by qualified expenses as incurred.

IFRS – Where an asset is impaired, lost or given up, any compensation from third parties is included in profit or loss when the compensation becomes receivable (IAS 16(65)). IFRS emphasizes that impairments or loss of items of property, plant and equipment, related claims for or payments of compensation from third parties, and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for as such.

As a result, the balance of government compensation fund liability as at January 1, 2010 and December 31, 2010 was adjusted to zero, while relevant expenses and assets impairment were recorded in 2009 and 2010 as occurred; and the fund of $194,124 (RMB1,276,292) received in 2010 was recorded in 2010 as other income.

The plant impairment was recorded in 2010 under Canadian GAAP. Under IFRS, this impairment has been recognized at the transition date as if related to the separate economic events of the plant relocation which happened in 2009.

(g) Goodwill and intangibles

Canadian GAAP – the goodwill and intangible assets acquired in business combinations were recorded as assets in the consolidated financial statements in the functional currency of the parent.

IFRS – such goodwill and intangible assets acquired must be recorded as assets of the acquirees in the functional currency of the acquirees.

As a result, the goodwill and intangible assets must be translated from the functional currency of the subsidiaries to the presentation currency of the Company that resulted into translation difference recorded into other comprehensive income. The carrying value of goodwill was adjusted to $6,393,635 as at December 31, 2010 (January 1, 2010 - $6,495,323) (Note 13). The carrying value of intangible assets was adjusted to $26,880 as at December 31, 2010 (January 1, 2010 - $515,574).

24. Transition to IFRS (continued):

Changes in accounting policies (continued)

(h) Non-controlling interests

Canadian GAAP – other comprehensive income resulting from translation of foreign operations are not attributed to non-controlling interests. Non-controlling interests are not included in equity. After tax income attributable to non-controlling interests are deducted from net income.

IFRS – other comprehensive income resulting from translation of foreign operations are proportionately attributed to non-controlling interests, and non-controlling interests are included in equity. After tax income attributable to non-controlling interests are included in net income.

As a result, the non-controlling interests of $9,882,647 was reclassified to equity as at January 1, 2010 (December 31, 2010 - $8,925,448) and other comprehensive income of $189,250 attributable to non-controlling interests in 2010 was adjusted.

(i) Investment property

Canadian GAAP – investment property is included in property, plant and equipment and recorded at costs less accumulated amortization and subject to impairment tests.

IFRS – investment property is presented separately from property, plant and equipment and is recorded at costs less accumulated amortization and impairment loss, or at fair value. The Company has selected to carry the investment property at costs method so there is no impact other than presentation separately.

(j) Other

Deferred income taxes were adjusted due to the above adjustments under IFRS.

Presentation Reclassifications

(i) Deferred tax reclassification: IFRS - All deferred tax assets and liabilities are classified as non-current.

(ii). Contributed surplus: IFRS – All expired and cancelled warrants and options are removed from contributed surplus to retained earnings.

24. Transition to IFRS (continued):

The following are reconciliations of the financial statements previously presented under Canadian GAAP to the financial statements prepared under IFRS.

MCVICAR INDUSTRIES INC.

Reconciliation of Consolidated Statement of Financial Position as of January 1, 2010

(Expressed in Canadian dollars)

	Canadian GAAP balancealance	Cumulative translation difference reset to zero	Reclassification of deferred tax assets/liabilities	Reclassification of expired warrants and options	Reclassification of NCI	Government grant	Pushed-down goodwill translation difference	IFRS balance
Assets								
Current assets								
Cash and cash equivalents	6,864,021							6,864,021
Short-term investments	2,826,566		-					2,826,566
Accounts receivable	8,020,280							8,020,280
Inventories	7,056,056		-					7,056,056
Due from related parties	916,776							916,776
Future tax assets - current	197,300		(197,300)					-
Other current assets	867,398							867,398
	26,748,397	-	(197,300)	-	-	-	-	26,551,097
Restricted cash	1,447,143							1,447,143
Property, plant and equipment	11,601,782					(675,925)		10,925,857
Intangible assets	491,080						24,494	515,574
Goodwill	7,143,728						(648,405)	6,495,323
Future income tax asset - non-current	173,800		197,300					371,100
	47,605,930	-	-	-	-	(675,925)	(623,911)	46,306,094
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	6,013,615							6,013,615
Short-term borrowings	2,776,871							2,776,871
Government compensation fund	1,053,107					(1,053,107)		-
Income taxes payable	311,285							311,285
Future taxes liabilities - current	650,039		(650,039)					-
Due to related parties	-							-
	10,804,917	-	(650,039)	-	-	(1,053,107)	-	9,101,771
Future income tax liability	-		650,039			94,297		744,336
Non-controlling interest	9,882,647				(9,882,647)			-
	20,687,564	-	-	-	(9,882,647)	(958,810)	-	9,846,107
Shareholders' equity								
Capital stock	26,052,375							26,052,375
Warrants	1,483,048							1,483,048
Contributed surplus	1,130,284			(442,508)				687,776
Accumulated other comprehensive income	36,508	610,462		-		(23,059)	(623,911)	-
Retained earnings	(1,783,849)	(610,462)		442,508		279,069		(1,752,072)
Equity to shareholders of the company	26,918,366	-	-	-	-	256,010	(623,911)	26,471,127
Non-controlling interest	-				9,882,647	26,875		9,988,860
	26,918,366	-	-	-	9,882,647	282,885	(623,911)	36,459,987
	47,605,930	-	-	-	-	(675,925)	(623,911)	46,306,094

See accompanying notes to the consolidated financial statements.

Reconciliation of Consolidated Statement of Financial Position as of December 31, 2010

(Expressed in Canadian dollars)

	Canadian GAAP balance	Government grant	Jite Kunshan assets components	Reversal of Luyuan fixed asset impairment	Pushed down goowill translation difference	CTA reset to zero on transition date	Jite stock option	McVicar stock option	Gain on purchase of Jite shares and MAM acquistion in 2010	Foreign exchange translation difference applied to MI	Deferred tax assets/liabilities reclassfication	Reclassification of non-controlling interests	Reclassification of expired option and warrants	IFRS balance
Assets														
Current assets														
Cash and cash equivalents	6,571,900													6,571,900
Short-term investments	2,896,962											-		2,896,962
Accounts receivable	8,885,840													8,885,840
Inventories	7,176,163											-		7,176,163
Due from related parties	363,178													363,178
Future tax assets - current	353,500										(353,500)			-
Other current assets	1,447,916													1,447,916
	27,695,459	-		-	-	-	-	-	-	-	(353,500)	-	-	27,341,959
Restricted cash	1,056,300													1,056,300
Due from related parties	1,079,081													1,079,081
Investments in associates	494,847													494,847
Property, plant and equipment	9,132,463		(59,542)	135,810	-	-								9,208,731
Intangible assets	24,465				2,415									26,880
Goodwill	7,143,728				(750,093)									6,393,635
Future income tax asset - non-current	377,900		14,900								353,500			746,300
	47,004,243	-	(44,642)	135,810	(747,678)	-	-	-	-	-	-	-	-	46,347,733
Liabilities														
Current liabilities														
Accounts payable and accrued liabilities	3,908,535													3,908,536
Short-term borrowings	2,112,600													2,112,600
Government compensation fund	310,508	-310,508			-	-								-
Income taxes payable	250,776													250,776
Future taxes liabilities - current	649,300										(649,300)			-
Due to related parties	714,792													714,792
	7,946,511	(310,508)		-	-	-	-	-	-	-	(649,300)	-	-	6,986,704
Future income tax liability	-	77,629		33,953							649,300			760,882
Non-controlling interest	8,925,448											(8,925,448)		-
	16,871,959	(232,879)		33,953	-	-	-	-	-	-	-	(8,925,448)	-	7,747,586
Shareholders' equity														
Capital stock	27,402,375													27,402,375
Warrants	-													-
Contributed surplus	2,954,663						25,153	82,443					(2,118,958)	943,301
Accumulated other comprehensive income	(387,121)	-29,541	373	(811)	(747,678)	610,462			(416,267)	189,250		-		(781,333)
Retained earnings	162,367	169,430	(24,623)	82,134	-	(610,462)	(45,984)	(82,443)	416,267			-	2,118,958	2,185,643
Equity to shareholders of the company	30,132,284	139,889	(24,250)	81,323	(747,678)	-	(20,831)	-	-	189,250		-	-	29,749,986
Non-controlling interest	-	92,990	(20,392)	20,534	-	-	20,831			(189,250)		8,925,448		8,850,161
	30,132,284	232,879	(44,642)	101,857	(747,678)	-	-	-	-	-		8,925,448	-	38,600,147
	47,004,243	-	(44,642)	135,810	(747,678)	-	-	-	-	-		-	-	46,347,733

See accompanying notes to the consolidated financial statements.

Reconciliation of Consolidated Income Statement
For the year ended December 31, 2010
(Expressed in Canadian dollars)

	Canadian GAAP balance	Government grant	Luyuan asset impairment reversal	Difference in step-acquisition	Option recognition difference	Jite asset component	Jite option recognition difference	IFRS balance	
Sales	33,461,148							33,461,148	
Costs of goods sold	23,767,741							23,767,741	
Gross profit	9,693,407	-	-	-	-	-	-	9,693,407	
Operating expenses									
General and administrative	5,561,891	255,116	(136,624)		82,443		45,984	5,808,810	
Amortization	723,614					60,015		783,629	
Loss on disposal of property, plant and equipment	66,793							66,793	
Impairment of intangible assets	238,720							238,720	
Foreign exchange loss	70,517							70,517	
	6,661,535	255,116	(136,624)	-	82,443	60,015	45,984	6,968,469	
Operating income before the under noted	3,031,872	(255,116)	136,624	-	(82,443)	(60,015)	(45,984)	2,724,938	
Other income	135,138	194,124						329,262	
Gain on purchase of subsidiary shares	301,103	-		(301,103)				-	
Income from investment in associates	124,616	-						124,616	
Unrealized loss on short term investments	(207,017)	-						(207,017)	
Income before income taxes and non-controlling interest	3,385,712	(60,992)	136,624	(301,103)	(82,443)	(60,015)	(45,984)	2,971,799	
Income taxes	(91,087)	15,045	(33,953)			15,000	-	(94,995)	
Income before non-controlling interest	3,294,625	(45,947)	102,671	(301,103)	(82,443)	(45,015)	(45,984)	2,876,804	
Non-controlling interests	(1,348,409)	(4,891)	(20,537)	-		20,392		1,353,446	Net income attributable to non-controlling interests under IFRS
Net income	1,946,216	(50,838)	82,134	(301,103)	(82,443)	(24,623)	(45,984)	1,523,358	Net income attributable to shareholders under IFRS
								2,876,804	
Basic and diluted income per share	0.054							0.042	
Weighted average number of shares outstanding									
Basic and diluted	35,890,334							35,980,334	

See accompanying notes to the consolidated financial statements.

Reconciliation of Consolidated Statement of Comprehensive Income
For the year ended December 31, 2010
(Expressed in Canadian dollars)

	Canadian GAAP balance	NCI to be classified under CI	Government grant	LY asset impairment reversal	Step-acquisition	McVicar Option recognition difference	Jite option recognition difference	Jite Kunshan assets component	Pushed down goowill translation difference	IFRS balance
Net income	1,946,216	1,348,409	(45,947)	102,671	(301,103)	(82,443)	(45,984)	(45,015)		2,876,804
Other comprehensive loss (income)										
Currency translation differerences	(423,629)		(33,771)	(811)	(416,267)			373	(123,767)	(997,872)
Comprehensive income	1,522,587	1,348,409	(79,718)	101,860	(717,370)	(82,443)	(45,984)	(44,642)	(123,767)	1,878,932