YORKEY

YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.
精熙國際(開曼)有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock Code : 2788

Annual Report 2006

* For identification purpose only

Yorkey Optical

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Corporate Information

Executive Directors

Cheng Wen-Tao
Liao Kuo-Ming

Non-Executive Directors

Lai I-Jen
Wu Shu-Ping

Independent Non-Executive Directors

Chiang Hsiang-Tsai
Chou Chih-Ming
Lai Chung-Hsiung

Company Secretary and Qualified Accountant

Ng Chi-Ching, FCPA, CPA (Aust.)

Registered Office

Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman KY1-1111,
Cayman Islands.

Place of Business in Hong Kong

Workshops 1-2, 6th Floor,
Block A Goldfield Industrial Centre
1 Sui Wo Road
Shatin
New Territories
Hong Kong

Place of Business in the PRC

No. 2 Xiaobian Industrial District
Changan Town
Dongguan City
Guangdong Province
The PRC

Auditor

Deloitte Touche Tohmatsu

Compliance Adviser

SinoPac Securities (Asia) Limited

Principal Bankers

The Hong Kong and Shanghai
Banking Corporation Ltd.
Bank SinoPac
Ta Chong Bank Ltd.
China Construction Bank
Industrial and Commercial Bank of China
Guangdong Development Bank

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street, P.O. Box 705,
George Town, Grand Cayman, British West Indies.

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Ltd.
26th Floor, Tesbury Centre, 28 Queen's Road East,
Wanchai, Hong Kong

Stock Code

2788

Chairman's Statement

On behalf of the board of directors, I am pleased to present the shareholders the annual results of Yorkey Optical International (Cayman) Ltd. (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31st December 2006 for their consideration.

Annual Results

I am also pleased to report to our shareholders that the Group recorded a turnover and profit attributable to equity holders of approximately US$82,220,000 and approximately US$22,656,000 respectively, representing an increase of approximately 4% and 13% respectively as compared with that of 2005.

Dividends

The board of directors of the Company (the "Board") recommended a final dividend of HK$0.123 (approximately US1.58 cents) per share amounting to HK$102,090,000 (approximately US$13,088,000) in respect of the year ended 31st December 2006.

Including the special interim dividend of HK$0.047 per share paid to shareholders on 20th July 2006, total dividend paid to the shareholders in respect of the year ended 31st December 2006 will be HK$0.17 per share, bringing a dividend payout ratio of approximately 80%.

Business Review and Outlook

The Group's business has entered into a new era after the successful listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10th February 2006 (the "Listing Date").

Since then, production facilities in various business divisions of the Group were further enhanced, and so were the Group's production capability and market competitiveness, that laid a strong foundation for the Group to become a leading manufacturer in the optical and opto-electronic parts and components industry.

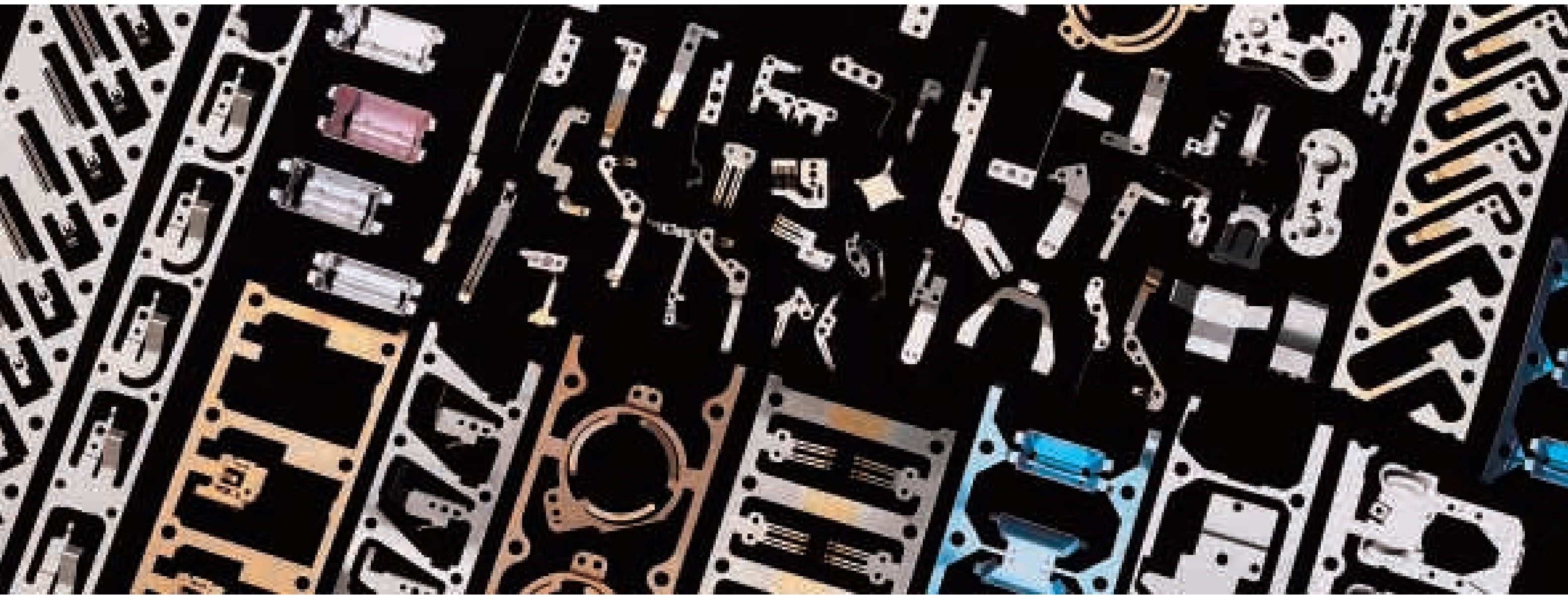
Chairman's Statement

During the past year, the Group maintained a good relation with well-known customers, such as Canon, Nikon, Olympus, Pioneer, Pentax, Ricoh and Fujifilm. The Group's ability in providing high quality and timely "one-stop" solutions to customers has been the main consideration factor for customers in selecting manufacturers. The support from our loyal customers, especially those aforementioned reputable customers, for all these years has been evidence of worldwide recognition of our services. And, it is always our honour to maintain this long term relationship with them.

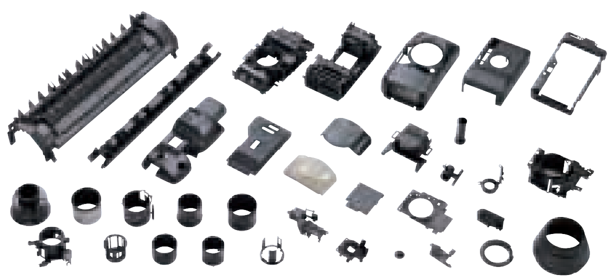
The Group plans to implement an Enterprise Resources Planning ("ERP") system. Not only can the system optimize the Group's internal operations, it can also improve and streamline the logistics procedures between companies. In addition, the new system can provide the Group's Management with information resources that are accurate, timely and convenient.

The Group will continue to focus on allocating considerable resources into various areas including product development, enhancement of production facilities and strengthening of the sales force in order to explore new markets and business opportunities.

Diversified Quality Products



The Group is confident that the business will continue to grow in the future and generate better returns to our shareholders. We believe that our experienced management team will utilize all our competitive advantages to consolidate the Group's position in the industry and will continue to strive for operational success.



Acknowledgement

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to our shareholders, customers and suppliers for their continuous support, as well as the management team and the staff of the Group for their hard work and contributions in the past year.

Liao Kuo-Ming
Chairman

Management Discussion and Analysis

Operational and Financial Review

The Group was established in 1995 and is principally engaged in the manufacture and sale of plastic and metallic parts and components of optical and opto-electronic products including digital still cameras ("DSC"), copiers (including copier-based multifunction peripherals ("MFP")), computer peripherals, handsets, traditional film cameras, and others, and subsequently related accessories as well as manufacture, painting and sale of molds and cases. The Group was listed on the Main Board of the Stock Exchange on 10th February 2006.

Turnover

The turnover of the Group for the year was approximately US$82,220,000, representing an increase of approximately 4% compared with approximately US$78,871,000 for the last year.

During the year, some major customers revised its sales strategy that caused reduction of sales orders. However, the situation was well compensated by the Group's diversified customers base approach that had brought the Group a steady growth in sales. Together with a strong market demand for optical and opto-electronic products, especially camera handsets and DSCs, a steady growth rate for turnover was therefore sustained. To maintain the Group's high sales profit margin, the Group continued to focus on development of high-end products including zoom lens mechanical parts.

Gross Profit

The gross profit for the year was approximately US$30,701,000 (2005: US$32,206,000) and the gross profit margin was approximately 37.3% (2005: 40.8%). Due to economies of scale, enhanced technique, quality control and our commitment in research and development of high-end components, the Group was able to maintain the gross profit margin at a high level.

Other Income

The other income, contributed mainly by the bank interest income, for the year was approximately US$5,860,000, representing an increase of approximately 154% as compared with approximately US$2,310,000 for the last year.

Net Profit

The Group's net profit for the year ended 31st December 2006 was approximately US$22,656,000, representing an increase of approximately 13% compared with US$20,030,000 in 2005.

Liquidity and Financial Resources

As at 31st December 2006, the Group had current assets of approximately US$151,408,000 (2005: US$64,897,000) while current liabilities of approximately US$16,481,000 (2005: US$10,322,000). The current ratio of the Group was approximately 919% (2005: 629%).

The Group finances its operation with internally generated resources. As at 31st December 2006, the Group had cash at bank and on hand of approximately US$125,052,000 (2005: US$43,610,000), and zero bank borrowings.

Net cash generated from operating activities for the year was approximately US$21,009,000.

Net cash outflow to investing activities for the year was approximately US$289,000 after the offset between the capital expenditure of approximately US$5,389,000 in enhancement of production facilities in various divisions of the Group and the bank interest income of approximately US$5,165,000.

Net cash inflow from financing activities for the year was approximately US$60,402,000, representing the net proceeds from the international placing and public offer on the Company's initial listing on the Stock Exchange on 10th February 2006.

In general, the Group focused on core businesses and pursued long-term stable growth. Therefore, we adopted conservative principles in financial operation. Working capital can fully meet the demand of capital expenditures and there is no need for debit finance or increasing capital from shareholders.

The Board is in the opinion that the Group is in a strong and healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditures.

Exchange Risk Exposure and Contingent Liabilities

The Group's sales were principally denominated in US dollars or Hong Kong dollars while purchases were also transacted mainly in US dollars, Renminbi, and Hong Kong dollars. The appreciation of Renminbi in 2006 did not materially affect the cost and operation of the Group in the year and the Group does not foresee significant risk in exchange rate fluctuation. Therefore, no financial instruments have been used for hedging purposes. The group will use forward exchange contracts for hedging purposes appropriately.

As at 31st December 2006, the Group had no significant contingent liabilities.

Capital Commitment

As at 31st December 2006, the capital commitment of Group was approximately US$332,000 (2005: US$42,000).

Employment, Training and Development

As at 31st December 2006, the Group had a total of 3,425 employees. A long term and stable human capital policy accommodated with fringe benefits, including medical insurance and provident fund, and competitive remuneration packages are adopted in order to attract, retain and motivate employees.

The Group strives to maintain good relations with its employees and is committed to employee training and development on a regular basis to maintain the quality of our products.

Management Discussion and Analysis

Outlook

Following the enhancement of production facilities in various business divisions of the Group by acquiring additional advanced machinery and precision equipment during the second half of the year ended 31st December 2006, the Group's production capability and market competitiveness were further enhanced. With these advanced machinery and equipment, the Group will be able to develop a variety of products, especially high-end components for digital single lens reflex cameras, in order to meet the needs of different customers.

Besides, the Group's major customers are optimistic about the business environment in 2007 and these well-known brand customers will continue to contract out the production process to outside manufacturers. All these are contributory factors to sustain the Group's continuous growth in business.

Looking forward to 2007, as worldwide DSC shipments are expected to grow beyond 100 million units together with a steady annual growth rate of more than 20% for the camera handsets and an increasing demand from emerging markets, the market size will continue to expand and the Group will eventually benefit from it. The Group's management is confident that the business will continue to grow in the future and generate better returns to our investors.

Final Dividend

The Board proposed a final dividend of HK$0.123 per share to shareholders whose names appear on the Register of Shareholders of the Company on 8th June 2007. The final dividend will be paid around the end of June 2007.

Including the special interim dividend of HK$0.047 per share paid to the shareholders on 20th July 2006, total dividend paid to the shareholders in respect of the year ended 31st December 2006 will be HK$0.17 per share, bringing a dividend payout ratio of approximately 80%.

Profile of Directors and Senior Management

Executive Directors

Mr. CHENG Wen-Tao (鄭文濤), aged 71, is an executive Director and the founder of the Group. Mr. Cheng is responsible for the strategic planning and overall management of the Group. Mr. Cheng is a graduate of the School of Engineering of Osaka Prefecture University (日本大阪府立大學工學部) and holds a degree of Bachelor in Engineering. He has over 30 years of experience in the optical industry. Before the establishment of the Group, Mr. Cheng worked in Ricoh Company Ltd. and was appointed as the factory manager, vice general manager of Taiwan Ricoh Company Ltd. Mr. Cheng is a director of Asia Promotion Optical International Ltd., which has an interest in the shares and/or underlying shares of the Company under Part XV of the Securities and Futures Ordinance (Cap. 571) (the "SFO") as set out in the Report of the Directors.

Mr. LIAO Kuo-Ming (廖國銘), aged 70, is an executive Director. Mr. Liao is responsible for the management of the production facilities and the public relation of the Group. Mr. Liao joined the Group in March 2001. Mr. Liao is also currently the Chairman of Asia Promotion Optical International Ltd., which has been engaged in the import and export business for more than 15 years. He was the fifth session honorary chairman of Taiwan Businessmen Association Dongguan (東莞市台商投資企業協會長安分會第五屆名譽會長), the second session vice president of Dongguan City Chang-An Town Taiwan Businessmen Association (東莞市長安鎮台商聯誼會第二屆副會長) and the first session vice-president, second session secretary general of Foreign Businessmen Association, Xiaobian, Dongguan, PRC (東莞市長安外商投資企業協會霄邊分會第一屆副會長及第二屆常務理事).

Non-executive Directors

Mr. LAI I-Jen (賴以仁), aged 58, is a non-executive Director. He has over 25 years of experience in the manufacture and sale of optical components and optical equipments. He is currently chairman of Asia Optical Co., Inc., ("Asia Optical") a company listed on the Taiwan Stock Exchange. Asia Optical is principally engaged in the design, manufacture and sale of optical parts and components and is reputable within industry. Mr. Lai has substantial experiences and international vision in business management, marketing and global logistics.

Ms. WU Shu-Ping (吳淑品), aged 44, is a non-executive Director. Ms. Wu is currently a director, the chief financial officer and spokesperson of Asia Optical, where she has worked over 25 years. Ms. Wu used to hold a directorship of various companies. She has an extensive financial background and had been actively involved in the listing, oversea financing, merger & acquisition projects of Asia Optical. Ms. Wu is experienced in the operations of the capital market and capital allocation and management of multinational enterprises in the manufacture industry.

Profile of Directors and Senior Management

Independent non-executive Directors

Mr. CHIANG Hsiang-Tsai（江向才）, aged 36, was appointed as an independent non-executive Director in December 2005. Mr. Chiang holds a degree of master of accountancy and financial information systems from Cleveland State University in the United States and a doctoral degree in business administration with specialisation in accounting and information technology management from Nova Southeastern University in the US. Mr. Chiang has published a number of research papers in periodicals and produced a number of writings and he is currently a full-time vice professor（專任副教授）with the department of accounting and the vice chief（副主任）of the accounting office in Feng Chia University in Taiwan.

Mr. CHOU Chih-Ming（周智明）, aged 48, was appointed as an independent non-executive Director in December 2005. He is a registered agent for book keeping and tax return filing and founded Chou Chih-Ming Accounting and Tax Agent Firm（周智明事務所）in 1990. He has accumulated book keeping experience over 15 years. Mr. Chou's working experience also includes Chu Ting Enterprise Co., Ltd.（巨登企業股份有限公司）where he was a scrutineer（監察人）. He had also been the sixth session secretary general of Taichung County Associate of Tax and Accounting Agent（台中縣税務會計記帳代理業職業工會第六屆常務理事）; and the second session secretary general of the National Federation of Tax and Accounting Agent Republic of China（中華民國税務會計記帳代理業職業工會全國聯合會第二屆常務理事）.

Mr. LAI Chung-Hsiung（賴重雄）, aged 63, was appointed as an independent non-executive Director in December 2005. In 1978, Mr. Lai founded Fu Kuo Co., Ltd. in Taiwan (富國興業股份有限公司) which is engaged in the manufacture and wholeselling of leisure sports equipment. Mr. Lai has accumulated more than 25 years of experience in the manufacture and sale of sport devices.

Senior Management

Mr. FAN Yang-Hao（范揚浩）, aged 51, is the department head of the metal stamping department of the Group. Prior to joining the Group Mr. Fan had worked in various Taiwanese Companies including International Kung-Li Co., Ltd.（國際共立公司）, and Avy Co., Ltd.（應華工業）which are of the same industry as the Group and has over 20 years of experience in the metal stamping industry. Mr. Fan joined the Group in July 1997.

Mr. WU Wen-Tsung（吳文宗）, aged 43, is the department head of the mould technology department of the Group. Mr. Wu has been working in the Group for more than 8 years and is the manager of the mould technology department. Mr. Wu joined the Group in July 1998.

Mr. CHAN Sun-Ko（詹孫科）, aged 38, is the department head of the plastic injection and moulding department of the Group. Mr. Chan had worked in other companies in the plastic moulding industry and has more than 10 years of experience in this industry. He joined the Group in July 1998.

Profile of Directors and Senior Management

Mr. HO Tsun-Jen（何聰仁）, aged 51, is the department head of the production technology department of the Group. Mr. Ho received a bachelor degree of Electrical Engineering from Nan-Jeon Institute of Technology, Taiwan in 1976. Mr. Ho has over 3 years of experience in the plastic mould industry. He is responsible for overseeing the production technique and ensuring the product quality for the Group. He joined the Group in January 2006.

Mr. FAN Hung-Yi（樊弘毅）, aged 55, is the manager of cases and bags department of the Group. Mr. Fan had worked in Avy Co., Ltd.（應華工業）before he joined the Group and has over 30 years of experience in the field of manufacturing and assembling of cases and bags. Mr. Fan is responsible to overseeing the production process, quality of products of the cases and bags department. Mr. Fan joined the Group in July 1998.

Ms. LAI Yi-Hung（賴逸虹）, aged 32, is the head of sales and marketing department of the Group. Ms. Lai has over 4 years of experience in computer industry. She is responsible for the administration and supervision of overall sales and marketing activities of the Group. She joined the Group in January 2006.

Mr. NG Chi Ching（吳子正）, aged 36, is the Group's chief financial officer of the Group and the qualified accountant of the Company. Mr. Ng is responsible for the overall finance and accounting of the Group. Mr. Ng graduated from The Australian National University with a degree of bachelor of commerce in 1994. He has over 10 years of experience in financial management and business management. Mr. Ng had worked in an international audit firm during the periods from May 1995 to March 1997 and from July 1997 to July 1999. Mr. Ng is a FCPA of the Hong Kong Institute of Certified Public Accountants and a CPA of CPA Australia. Mr. Ng joined the Group in January 2006.

Report of the Directors

The Board is pleased to present the annual report and the audited financial statements of the Group for the year ended 31st December 2006.

Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 25 to the financial statements.

Results

The results of the Group for the year are set out in the consolidated income statement on page 32.

Dividends

During the year, the Company paid a special interim dividend of HK$0.047 (approximately US0.6 cents) per share amounting to HK$39,010,000 (approximately US$5,001,000) in respect of the year ended 31st December 2006 on 20th July 2006.

The Board has resolved to recommend a final dividend of HK$0.123 (approximately US1.58 cents) per share amounting to HK$102,090,000 (approximately US$13,088,000) in respect of the year ended 31st December 2006. The final dividend is expected to be paid around the end of June 2007 to those shareholders whose name appear on the register of members of the Company on 8th June 2007.

Share Capital

Details of the movements in the issued share capital of the Company during the year are set out in note 19 to the financial statements.

Reserves

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 34.

As at 31st December 2006, the Company's reserve available for distribution to its shareholders comprise contributed surplus amounted to approximately US$85,842,000 and retained profits of approximately US$2,156,000.

Investment Properties

Details of the investment properties of the Group during the year are set out in note 11 to the financial statements.

Property, Plant and Equipment

Details of the movement in property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's largest customer and five largest customers taken together accounted for approximately 23.1% and 60.5% of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for approximately 20.4% and 39.8% of the Group's total purchase for the year.

Save and except for Asia Optical International Ltd., none of the Directors, their respective associates or, the Directors aware, any Shareholder owns more than 5% of the issued share capital of the Company has any interest in any of the other top five customers and suppliers of the Group for the year.

Directors and Directors' Service Contracts

The directors of the Company ("Directors") during the year and up to the date of this report were:

Executive Directors:

Mr. Liao Kuo-Ming (Chairman)
Mr. Cheng Wen-Tao (CEO)
Mr. Tong Ching-Hsi (resigned on 14th March 2007)

Non-executive Directors:

Mr. Lai I-Jen
Ms. Wu Shu-Ping

Independent non-executive Directors:

Mr. Chiang Hsiang-Tsai
Mr. Chou Chih-Ming
Mr. Lai Chung-Hsiung

The biographical details of the directors are set out on page 10 to page 11 of this annual report.

Each of the executive Directors has entered into a service contract with the Company for a term of 3 years commencing from the Listing Date. Each service contract will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive and independent non-executive Directors has been appointed for a term of one year commencing on 20th December 2005. In addition, the appointment of each of the non-executive and independent non-executive Directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

Other than disclosed above, none of the Directors has entered or has proposed to enter into any service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employing company within one year without payment of compensation (other than statutory compensation)).

The Company had received confirmations from each of the Company's independent non-executive Directors of their independence and considered all independent non-executive Directors to be independent. In accordance with the provisions of the Company's Articles of Association, Mr. Cheng Wen-Tao, Mr. Liao Kuo-Ming, Mr. Lai I-Jen, Ms. Wu Shu-Ping, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Lai Chung-Hsiung will retire from the Board at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election. Detail of Directors' emoluments on a named basis are set out in note 7 to the financial statement on page 46 of this annual report.

Report of the Directors

Directors and Chief Executive's Interests in Shares

As at 31st December 2006, the interest or short positions of the directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") to be notified to the Stock Exchange and the Company, are set out below:

1. Long positions in the shares, underlying shares and debentures of the Company

Name of director/ chief executive of the Company	Nature of interest	Total number of shares/underlying shares in the Company	Percentage of issued share capital in the Company
Mr. Cheng Wen-Tao	Interest of a controlled corporation	242,000,000 *(Note 1)*	29.16%
	Interest of a party to an agreement to acquire interests in the Company required to be disclosed under sections 317(1)(b) and 318 of the SFO	120,000,000 *(Note 2)*	14.46%

Note 1: Mr. Cheng Wen-Tao ("Mr. Cheng") is taken to be interested in an aggregate of 242,000,000 shares held by Asia Promotion Optical International Ltd. ("Asia Promotion"). Asia Promotion is owned as to 49.3% by Mr. Cheng, as to 26.2% by the spouse of Mr. Cheng, Ms. Huang Ching-Hui ("Mrs. Cheng"), and as to 24.5% by Mr. Liao Kuo-Ming. Mr. Cheng is also the sole director of Asia Promotion.

Note 2: Mr. Cheng is also deemed to be interested in the 120,000,000 shares in the Company directly held by Fortune Lands International Ltd. ("Fortune Lands") by virtue of section 317 of the SFO because he, being a controlling person (within the meaning of section 317(7) of the SFO) and a director of the Company, advanced a loan in the sum of HK$38,400,000 to Fortune Lands with the knowledge that it would be applied for the subscription of shares in the Company.

Save as disclosed above, as at 31st December 2006, none of the Directors or chief executives of the Company had any long position in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

2. **Short positions in the shares, underlying shares and debentures of the Company and interests and short positions in the shares, underlying shares and debentures of the Company's associated corporation**

As at 31st December 2006, none of the Directors or chief executives of the Company, had any interest in short position in the shares, underlying shares or debentures of the Company or any interest or short position in the shares, underlying shares of debentures of the Company's associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Stock Exchange and the Company pursuant to the Model Code.

Directors' Interest in Contracts of Significance

Save as disclosed in note 24 to the financial statements, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Rights to Acquire Shares

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Substantial Shareholders

As at 31st December 2006, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

1. Long position in the shares and underlying shares of the Company

Name of shareholder of the Company	Type of interest	Number of shares/underlying shares in the Company	Percentage of the issued share capital in the Company
Ability Enterprise (BVI) Co., Ltd.	Beneficial owner	198,000,000	23.86%
Ability Enterprise Co., Ltd.	Interest of a controlled corporation	198,000,000 *(Note 1)*	23.86%
Asia Promotion Optical International Ltd.	Beneficial owner	242,000,000	29.16%
Mr. Cheng Wen-Tao	Interest of a controlled corporation	242,000,000 *(Note 2)*	29.16%
Mr. Cheng Wen-Tao	Interest of a party to an agreement to acquire interests in the Company required to be disclosed under sections 317(1)(b) and 318 of the SFO	120,000,000 *(Note 2)*	14.46%
Fortune Lands International Ltd.	Founder of discretionary trust	120,000,000 *(Note 3)*	14.46%
Fortune Lands International Ltd.	Interest of a party to be disclosed under sections 317(1)(b) and 318 of the SFO	242,000,000 *(Note 3)*	29.16%
Mr. Tawara Seiichi	Interest of a controlled corporation	362,000,000 *(Note 4)*	43.61%

Name of shareholder of the Company	Type of interest	Number of shares/underlying shares in the Company	Percentage of the issued share capital in the Company
Ms. Huang Ching-Hui	Interest of a spouse	362,000,000 *(Note 5)*	43.61%
Ms. Arai Keiko	Interest of a spouse	362,000,000 *(Note 6)*	43.61%

Note 1: Ability Enterprise Co., Ltd. ("Ability Enterprise") holds 100% direct interest in the issued capital of Ability Enterprise (BVI) Co., Ltd. ("Ability Enterprise BVI") and therefore is taken to be interested in an aggregate of 198,000,000 shares in the Company held by Ability Enterprise BVI.

Note 2: Mr. Cheng, an executive director of the Company, is deemed to be interested in an aggregate of 242,000,000 shares in the Company held by Asia Promotion since he is entitled to exercise the entire voting power of Asia Promotion.

Mr. Cheng is also deemed to be interested in the 120,000,000 shares in the Company directly held by Fortune Lands by virtue of section 317 of the SFO because he, being a controlling person (within the meaning of section 317(7) of the SFO) and a director of the Company, advanced a loan in the sum of HK$38,400,000 to Fortune Lands with the knowledge that it would be applied for the subscription of shares in the Company.

Note 3: Fortune Lands is the founder of The Yorkey Employee's Trust and is the registered owner of 120,000,000 shares in the Company which it will hold as trustee of The Yorkey Employees' Trust.

Fortune Lands is also deemed to be interested in the 242,000,000 shares in the Company in which Mr. Cheng is interested by virtue of application of section 317 of the SFO because Mr. Cheng, being a controlling person (within the meaning of section 317(7) of the SFO) and a director of the Company, advanced a loan in the sum of HK$38,400,000 to Fortune Lands with the knowledge that it would be applied for the subscription of shares in the Company.

Note 4: Mr. Tawara Seiichi, being the sole shareholder of Fortune Lands, is taken to be interested in an aggregate of 120,000,000 shares in the Company held by Fortune Lands.

Mr. Tawara is also deemed to be interested in the 242,000,000 shares in the Company in which Fortune Lands is deemed to be interested by virtue of application of section 317 of the SFO because Mr. Cheng, being a controlling person (within the meaning of section 317(7) of the SFO) and a director of the Company, advanced a loan in the sum of HK$38,400,000 to Fortune Lands with the knowledge that it would be applied for the subscription of shares in the Company.

Note 5: Ms. Huang Ching-Hui , the spouse of Mr. Cheng, is taken to be interested in an aggregate of 362,000,000 shares in which Mr. Cheng is interested in.

Note 6: Ms. Arai Keiko, the spouse of Mr. Tawara, is taken to be interested in an aggregate of 362,000,000 shares in which Mr. Tawara is interested in.

Report of the Directors

2. Short positions in the shares and underlying shares of the Company

As at 31st December 2006, the Company had not been notified of any short position being held by any substantial shareholder in the shares or underlying shares in the Company which would be recorded in the register required to be kept under section 336 of the SFO.

Share Option Scheme

A share option scheme (the "Share Option Scheme") was conditionally adopted by the shareholders' written resolution of the Company dated 18th January 2006.

The Share Option Scheme had become unconditional upon the listing of the Company's shares on the Stock Exchange on 10th February 2006. No share options were granted, exercised or cancelled by the Company under the share option scheme during the year and there are no outstanding share options under the Share Option Scheme as at 31st December 2006.

Save as disclosed herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisitions of shares in, or debentures of the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or any had exercised any such right.

Summary of Principal Terms of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Company to grant options to employees, senior executive or officer, manager and directors of the Company or any of its subsidiaries and outside third parties who, in the sole discretion of the board of directors of the Company, have contributed or will contribute to the growth and development of the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall be 80,000,000 (excluding the over-allotment portion) shares, representing 10% of the issued share capital of the Company as at the date of listing of shares on the Stock Exchange.

The total number of shares issued and to be issued upon exercise of options granted and to be granted to each grantee under the Share Option Scheme in any 12-month period shall not exceed 1% of the issued share capital of the Company from time to time. Options granted in the past 12-month period up to and including the date of grant to substantial shareholders or independent non-executive directors in excess of 0.1% of the issued share capital of the Company and with an aggregate value in excess of HK$5,000,000 must be approved by the Company's shareholders.

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose its discretion any such minimum period at the time of grant of any particular option. The period during which the options may be exercised will be notified by the Board to each grantee upon grant of each option, provided that it shall commence on a date not earlier than the date of the grant of an option and not be more than ten (10) years from the date of grant of the option. An offer of grant of an option must be accepted being a date not more than fourteen (14) days after the date of grant. The amount payable on acceptance of an option is HK$1.00.

The subscription price for the shares under the Share Option Scheme shall be a price determined by the Board at its absolute discretion and shall not be less than the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

The Share Option Scheme shall be valid and effective for a term commencing on the 18th January 2006 and ending on the 17th January 2016.

Connected Transactions

During the year ended 31st December 2006, the Group had the following connected transactions that were subject to the Listing Rules' reporting requirements for disclosure in this annual report.

1. **Sales of camera cases and related products from Yorkey Optical Technology Limited ("YOT") to Asia Promotion Optical Inc. ("APO Inc.")**

   On 1st January 2006, YOT, a wholly-owned subsidiary of the Company, and APO Inc., which is owned as to 42% by Mr. Liao Kuo-Ming, an executive Director of the Company, entered into a master sale and purchase agreement ("AP Master Agreement") in respect of the sale of camera cases made with synthetic materials and related products by the Group to APO Inc. for a term from the date of signing of the AP Master Agreement to 31st December 2007.

   As the Group focuses on Japanese background customers, its sales network in Taiwan is of a relatively smaller scale and thus it is seldom to receive direct purchase orders of the Group from Taiwan background companies. On the contrary, APO Inc. is mainly engaged in the trading of synthetic leathers and other materials in Taiwan, and thus is commissioned by its Taiwan customers to purchase camera cases. In view of the availability of the Group's supply of such products, APO Inc. sources such products from the Group. In addition, the Directors consider that the Group should be in a better position to control the debt collection risks if such sales are conducted through APO Inc.

   For the year ended 31st December 2006, sales of camera cases made with synthetic materials and related products to APO Inc by the Group amounted to approximately US$176,000.

2. **Purchase of digital cameras' integrated circuits and circuit boards by YOT from Ever Pine International Limited ("Ever Pine")**

   On 1st January 2006, YOT and Ever Pine, which is indirectly collectively owned as to 77% by the substantial shareholders of the Company, Ability Enterprise (BVI) Co., Ltd and Asia Promotion Optical International Ltd., entered into a master sale and purchase agreement ("Ever Pine Purchase Agreement") in respect of the purchase of digital cameras' integrated circuits and circuit boards by the Group from Ever Pine for a term commencing from the date of signing of the Ever Pine Purchase Agreement to 31st December 2007.

Report of the Directors

The reason for such transactions is that the Group wishes to provide convenience to the customer by offering one-stop service and the Directors consider that by purchasing from Ever Pine, the Group could have a better control over the relevant costs, such as freight.

For the year ended 31st December 2006, purchase of digital cameras' integrated circuits and circuit boards from Ever Pine by the Group amounted to approximately US$141,000.

3. Lease of property by Dongguan Yorkey Optical Machinery Components Ltd ("Dongguan Yorkey") to Dongguan Guang Tong Business Machines Co., Ltd. ("Dongguan Guang Tong")

On 18th July 2005, Dongguan Yorkey, an indirect wholly-owned subsidiary of the Company, as landlord and Dongguan Guang Tong, an associate of Ability Enterprise BVI and Asia Promotion, as tenant entered into a lease agreement ("Lease Agreement") pursuant to which Dongguan Guang Tong has agreed to lease a property ("PRC Property") with a gross floor area of 10,519.41 sq.m. situated at Junction of Erhuan Central Road, No. 2 Xiaobian Industrial District, Changan Town, Dongguan Cith, Guangdong Province, the PRC as factory premises for the operation of the business of Donngguan Guang Tong and staff quarters for a term commencing from 1st January 2005 to 31st December 2010 (which was subsequently modified to expire on 31st December 2007 by a supplemental agreement dated 29th December 2005 entered into between Dongguan Yorkey as landlord and Dongguan Guang Tong as tenant).

The Group entered into the Lease Agreement in order not to leave the floor area on the third floor vacant and unused.

For the year ended 31st December 2006, the rental income received from Donngguan Guang Tong amounted to approximately US$317,000.

4. General administration service fees paid by Dongguan Guang Tong to Dongguan Yorkey

On 31st December 2004, Dongguan Yorkey, an indirect wholly-owned subsidiary of the Company, and Dongguan Guang Tong, an associate of Ability Enterprise BVI and Asia Promotion, entered into an agreement ("Administrative Service Agreement") pursuant to which Dongguan Yorkey agreed to provide Dongguan Guang Tong with general administrative services (including food, electricity, water supply, security guards, cars, other administrative services and equipment) in relation to the operation of the business of Dongguan Guang Tong for a term of three years from 1st January 2005 to 31st December 2007. Pursuant to the Administration Service Agreement, Dongguan Guang Tong shall pay a fee to compensate the expenses incurred by the Group to Dongguan Yorkey on a monthly basis in accordance with an agreed fee schedule. The expenses include mainly meal expenses, utility expenses, cleansing expenses, security expenses and other related expenses. The purpose of entering into the Administration Service Agreement is to achieve better management efficiency and to save cost for both Dongguan Guang Tong and the Group.

Such arrangement between Dongguan Guang Tong and Dongguan Yorkey has ceased for the whole year ended 31st December 2006.

5. **Sales of copier related parts and components from YOT to Hong Kong Bell Shin-Ei Tech Company Limited ("Shin-Ei")**

On 1st January 2006, YOT and Shin-Ei, an associate of Ability Enterprise BVI and Asia Promotion, entered into a master sale and purchase agreement ("Shin-Ei Master Agreement") in respect of the sale of copier related parts and components by the Group to Shin-Ei for a term from the date of signing of the Shin-Ei Master Agreement to 31st December 2007.

The reasons why Shin-Ei purchased components from the Group are as follows: (1) the Group has been granted ISO certification, and the Group's products were manufactured up to the quality requirements as requested by the customers of Shin-Ei; and (2) in order for procurement efficiency and costs savings, Shin-Ei purchased components from the Group since Shin-Ei is also located in Dongguan, the PRC, and within the same neighborhood of the Group.

For the year ended 31st December 2006, the sales of copier related parts and components to Shin-Ei amounted to approximately US$2,862,000.

6. **Sales of office equipment related parts and components from YOT to Ever Pine**

On 1st January 2006, YOT and Ever Pine entered into a master sale and purchase agreement ("Ever Pine Master Agreement") whereby YOT agreed to sell office equipments (including but not limited to copiers and multi-function printers) related parts and components to Ever Pine for a term commencing from the date of signing of the Ever Pine Master Agreement to 31st December 2007.

The reasons for such transactions are as follows: (1) the Group has been granted ISO certification, and the Group's products were manufactured up to the quality requirements as requested by the customers of Ever Pine; and (2) in order for procurement efficiency and savings costs, Ever Pine purchased components from the Group since Dongguan Guang Tong rented certain factory premises from Dongguan Yorkey.

For the year ended 31st December 2006, sales of office equipments (including but not limited to copiers and multi-function printers) related parts and components to Ever Pine by the Group amounted to approximately US$424,000.

Report of the Directors

7. **Purchase of materials and related parts for producing camera casings and cases from APO Inc.**

On 1st January 2006, YOT and APO Inc. entered into a master sale and purchase agreement ("AP Purchase Agreement") whereby APO Inc. agreed to sell materials and related parts for producing camera casings and cases to YOT for a term commencing from the date of signing of the AP Purchase Agreement to 31st December 2007.

The reason why the Group purchases these materials and related parts through APO Inc. is that Taiwanese companies are able to offer these materials and related parts to the Group at reasonable price and quality which fits the requirements of the Group and it is the existing practice of the Group to purchase these materials from Taiwanese companies. However, in view of the fact that the Group does not have establishments in Taiwan, the Group conducts the related business via APO Inc.. By doing so, the Group is able to enjoy the foregoing benefits and also to avoid the costs and the possible costs associated with securing stable supply with the suppliers.

For the year ended 31st December 2006, purchase of materials and related parts for producing camera casings and case from APO Inc. by the Group amounted to approximately US$649,000.

8. **Management fees paid by YOT to APO Inc.**

On 1st August 2005, YOT and APO Inc. entered into a management agreement ("Management Agreement") whereby APO Inc. agreed to provide recruitment services to YOT for a term commencing from the date of the Management Agreement to 31st December 2007. Pursuant to the Management Agreement, YOT shall pay APO a management fee of US$100,000 per month as reimbursement to APO Inc. for salaries, insurance and related expenses paid by APO Inc. to the Taiwanese personnel who provide services to the Group. Further, the parties may make any adjustment to the management fees payable by YOT by reference with the actual payment made by APO Inc. under the arrangement.

Because the Group does not have fixed operating place nor any branch in Taiwan, the Group is unable to provide the labor insurance or social welfare benefit to Taiwanese personnel. Therefore, the Group and APO Inc. entered into the Management Agreement under which APO Inc. agreed to retain Taiwanese personnel for the Group and grant those people benefits under the labor welfare system, such as the Taiwan labor insurance, health insurance, and pension. The Group then pays APO Inc. the equivalent amount.

For the year ended 31st December 2006, the management fees paid by the Group to APO Inc. amounted to approximately US$1,198,000.

9. Sale of digital camera parts made with plastic and/or metal materials, molding, coating and printing related products from YOT to Ability Group

On 22nd August 2006, YOT entered into a master sale and purchase agreement ("Ability Group Master Agreement") with Ability Enterprise Co., Ltd., the parent company of Ability Enterprise BVI, and its affiliate companies that are engaged in DSC assembly or sales, including Viewquest Technologies (BVI) Inc., Gold Market Investments Ltd. and Ashine Precision (China) Ltd. (collectively the "Ability Group"). Pursuant to the Ability Group Master Agreement, YOT agreed to sell digital camera parts made with plastic and/ or metal materials, molding, coating and printing related products to Ability Group. The Ability Group Master Agreement will expire on 31st December 2007.

The benefits of entering into the Ability Group Master Agreement are that (1) the Group will be in a better position to control the debt collection risks if such transaction is conducted with Ability Group; and (2) the Group is expected to benefit from Ability Enterprise's better understanding of operations of the Group which should allow expedient and efficient sales transaction.

For the year ended 31st December 2006, the sales of digital camera parts made with plastic and/or metal materials, molding, coating and printing related products to the Ability Group by the Group amounted to approximately US$1,011,000.

10. Sale of synthetic leather cases for office equipment parts from Dongguan Yorkey to Dongguan Guang Tong

On 22nd August 2006, Dongguan Yorkey, an indirect wholly-owned subsidiary of the Company, and Dongguan Guang Tong, an associate of Ability Enterprise BVI and Asia Promotion, entered into a master sale and purchase agreement ("Dongguan Guang Tong Master Agreement") whereby Dongguan Yorkey agreed to sell synthetic leather cases for office equipment parts to Dongguan Guang Tong. The Dongguan Guang Tong Master Agreement will expire on 31st December 2007.

The benefits of entering into the Dongguan Guang Tong Master Agreement are that (1) the Group will be in a better position to control the debt collection risks if such transaction is conducted with Dongguan Guang Tong; and (2) the Group is expected to benefit from Dongguan Guang Tong's better understanding of operations of the Group which should allow expedient and efficient sales transaction.

For the year ended 31st December 2006, the sales of leather cases for office equipment parts to Dongguan Guang Tong by the Group amounted to approximately US$122,000.

Report of the Directors

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the connected transactions of the Group to assist the Directors to evaluate whether the transactions:

1. have received the approval from the Board;
2. were in accordance with the pricing policies of the Company where the transactions involve provision of goods and services by the Company;
3. have been entered into in accordance with the relevant agreements governing the transactions; and
4. have not exceeded the caps disclosed in the Company's prospectus dated 26th January 2006 and relevant announcement.

The auditor has reported their factual findings on these procedures to the Board of Directors. The independent non-executive Directors of the Company have reviewed the above connected transactions and have confirmed the transactions have been entered into by the Group:

1. in the ordinary and usual course of their business of the Group;
2. either on normal commercial terms, on terms no less favorable to the Group than those available to or from independent third parties; and
3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Management Contracts

Except for the connected transactions as stated in this directors' report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Directors' Remuneration

The director's fees, basic salaries and other allowances are disclosed in note 7 of the financial statements.

There were no compensation paid during the financial year or receivable by Directors or past Directors for the loss of office as a Director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

Pension Schemes

The pension schemes of the Company and its subsidiaries are primarily in form of contributions to the China statutory public welfare fund.

Sufficiency of Public Float

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

Purchase, Redemption or Sale of Listed Securities of the Company

On 9th February 2006, the Company issued 160,000,000 new shares pursuant to the international offering of the Company in 2006 and an additional 30,000,000 new shares were issued on 1st March 2006 pursuant to the over-allotment option granted to SinoPac Securities (Asia) Limited.

Save as above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31st December 2006.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under company laws in the Cayman Islands.

Auditor

A resolution to re-appoint Deloitte Touche Tohmatsu as auditor of the Company will be submitted at the annual general meeting of the Company.

On behalf of the Board

LIAO Kuo-Ming
Chairman

14th March 2007

Corporate Governance Report

Corporate Governance Practices

The Group is committed to ensuring high standards of corporate governance in the interest of its shareholders. The Directors also acknowledge that it is their responsibility for preparing the financial statements of the Group for the year ended 31st December 2006.

The Group has adopted the code provisions set out in the Code of Corporate Governance Practices (the "Code") as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has reviewed each code provision set out in the Code and confirmed that the Company has fully complied with the Code during the period.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry of all The Directors regarding any non-compliance with the Model Code during the period and they all confirmed they have fully complied with the required standard set out in the Model Code.

Board of Directors

As at the date of this report, the Board of the Company comprises two executive Directors, namely, Mr. Cheng Wen-Tao and Mr. Liao Kuo-Ming, two non-executive Directors, namely, Mr. Lai I-Jen and Ms. Wu Shu-Ping, and three independent non-executive Directors, namely, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Lai Chung-Hsiung. Mr. Cheng Wen-Tao is the chief executive officer of the Company. Mr. Tong Ching-Hsi has resigned as an executive Director of the Company and the Chairman of the Board with effect from 14th March 2007. Mr. Liao Kuo-Ming was appointed as the Chairman of the Company with effect from 14th March 2007.

The Board will have four scheduled meetings a year and meet at other times as and when required to review financial and internal control, risk management, company strategy and operating performance of the Group. Board minutes are kept by the secretary of the Company and are sent to the Directors for records and are open for inspection by the Directors. During the year, five board meetings were held and the attendance of each director is set out below:

Name of Director	Number of meetings attended
Cheng Wen-Tao	5/5
Tong Ching-Hsi (resigned with effect from 14th March 2007)	5/5
Liao Kuo-Ming	5/5
Lai I-Jen	5/5
Wu Shu-Ping	5/5
Chiang Hsiang-Tsai	5/5
Chou Chih-Ming	5/5
Lai Chung-Hsiung	5/5

The Board is responsible to ensure that there is a competent executive management which is able to run the Company in a sound and efficient manner. The Board is also responsible for establishing the Company's business strategies and plans from time to time to ensure that the operations of the Company are conducted effectively.

Each executive Director is delegated individual authority and responsibility to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set by the Board. The roles of the chairman of the Board and the chief executive officer are segregated and are not exercised by the same individual. The Company has received, from each independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent. The independent non-executive Directors will provide independent opinion and share their knowledge and experience with the other members of the Board.

Each of the non-executive Directors, namely, Mr. Lai I-Jen and Ms. Wu Shu-Ping, is appointed for an initial term of one year commencing from 20th December 2005, subject to re-election at forthcoming annual general meetings in accordance with the Articles of Association of the Company and the relevant letter of appointment.

The Board had conducted appropriate internal control procedures and reviewed risk management strategies and policies of the Company to ensure that the Company runs its business in compliance with all legal and regulatory requirements with prudence and integrity.

Remuneration of Directors

The Company has established a remuneration committee with written terms of reference as suggested under the code provisions under the Code. The remuneration committee comprises three members, namely, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Lai Chung-Hsiung, all being independent non-executive Directors. The chairman of the remuneration committee is Mr. Chiang Hsiang-Tsai. The remuneration committee will meet at least once a year to determine the remuneration policy for Directors and senior management. During the year, two remuneration committee meetings were held and the attendance of each director is set out below:

Name of director	**Number of meetings attended**
Chiang Hsiang-Tsai	2/2
Chou Chih-Ming	2/2
Lai Chung-Hsiung	2/2

The principal responsibilities of the remuneration committee include making recommendations to the Board on the remuneration package of the Directors and the senior management to ensure that the remuneration offered is appropriate for the duties and responsibilities assumed and in line with the general market practice.

Details of the amount of Directors emoluments are set out in note 7 to the accounts.

Auditor's Remuneration

During the year ended 31st December 2006, the fee paid/payable to auditor in respect of audit services provided by the auditor to the Group was approximately US$174,000 and other services of US$77,000.

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with the code provisions under the Code. The audit committee ensures adequate supervision of the Company's financial reporting processes, reviews the internal audit program and reports, ensures co-ordination between the internal and external auditors, and monitors the compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, internal rules and procedure approved by the Board.

Corporate Governance Report

The audit committee comprises three members, namely, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Lai Chung-Hsiung, all being independent non-executive Directors. The chairman of the audit committee is Mr. Chiang Hsiang-Tsai.

During the year, two audit committee meetings were held and the attendance of each Director is set out below:

Name of Director	Number of meetings attended
Chiang Hsiang-Tsai	2/2
Chou Chih-Ming	2/2
Lai Chung-Hsiung	2/2

The Group's annual results for the year ended 31st December 2006 have been reviewed by the audit committee.

Investor Relations

The Company is committed to maintain high level of transparency in communicating with shareholders and the investment community at large. The Company provides information in relation to the Company and its business in its annual report which is to be dispatched to shareholders on a timely basis. The Group's corporate website also provides an effective communication medium through which the public and investor community can obtain updated information about the Group.

All the shareholders of the Company are to be given a 21 days' notice of the date and venue of the Company's Annual General Meeting where the shareholders will have an opportunity to communicate directly with the Board of the Company.

Deloitte.
德勤

TO THE SHAREHOLDERS OF YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Yorkey Optical International (Cayman) Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 59, which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

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 true 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 the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31st December, 2006 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
14th March, 2007

Consolidated Income Statement

For the year ended 31st December, 2006

	Notes	2006 US$'000	2005 US$'000
Turnover		**82,220**	78,871
Cost of goods sold		**(51,519)**	(46,665)
Gross profit		**30,701**	32,206
Other income		**5,860**	2,310
Distribution costs		**(1,339)**	(1,639)
Administrative expenses		**(12,355)**	(11,863)
Profit before taxation	*6*	**22,867**	21,014
Taxation	*8*	**(211)**	(984)
Profit for the year		**22,656**	20,030
Dividends	*9*	**18,089**	4,522
Earnings per share			
– Basic	*10*	**US2.81 cents**	US3.13 cents

Consolidated Balance Sheet

At 31st December, 2006

	Notes	2006 US$'000	2005 US$'000
Non-current assets			
Investment properties	11	**798**	835
Property, plant and equipment	12	**27,918**	24,071
Land use rights	13	**241**	238
Deposits made on acquisition of property, plant and equipment		**203**	291
Deferred taxation	14	**1,232**	1,053
		30,392	26,488
Current assets			
Inventories	15	**4,502**	1,865
Trade and other receivables	16	**21,192**	19,117
Amounts due from related companies	17	**474**	270
Amounts due from shareholders	17	**95**	35
Taxation recoverable		**93**	–
Bank balances and cash		**125,052**	43,610
		151,408	64,897
Current liabilities			
Trade and other payables	18	**15,622**	9,656
Taxation payable		**859**	666
		16,481	10,322
Net current assets		**134,927**	54,575
Net assets		**165,319**	81,063
Capital and reserves			
Share capital	19	**1,069**	67
Reserves		**164,250**	80,996
Total equity		**165,319**	81,063

The consolidated financial statements on pages 32 to 59 were approved and authorised for issue by the Board of Directors on 14th March, 2007 and are signed on its behalf by:

CHENG WEN-TAO	**LIAO KUO-MING**
CHIEF EXECUTIVE OFFICER	*CHAIRMAN*

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2006

	Attributable to equity holders of the Company						
	Share capital US$'000	Share premium US$'000	Special reserve US$'000	Translation reserve US$'000	Statutory surplus reserve fund US$'000	Retained profits US$'000	Total US$'000
At 1st January, 2005	–	–	–	1,390	721	43,679	45,790
Exchange differences arising from the translation of financial statements of foreign operations recognised directly in equity	–	–	–	(126)	–	–	(126)
Profit for the year	–	–	–	–	–	20,030	20,030
Total recognised income and expenses for the year	–	–	–	(126)	–	20,030	19,904
Issue of shares of a subsidiary	50	19,367	–	–	–	–	19,417
Arising on group reorganisation	17	(19,367)	19,350	–	–	–	–
Transfers	–	–	–	–	1,555	(1,555)	–
Dividend waived	–	–	–	–	–	474	474
Dividend paid	–	–	–	–	–	(4,522)	(4,522)
At 31st December, 2005	67	–	19,350	1,264	2,276	58,106	81,063
Exchange differences arising from the translation of financial statements of foreign operations recognised directly in equity	–	–	–	1,198	–	–	1,198
Profit for the year	–	–	–	–	–	22,656	22,656
Total recognised income and expenses for the year	–	–	–	1,198	–	22,656	23,854
Capitalisation issue	735	(735)	–	–	–	–	–
Issue of shares	267	67,644	–	–	–	–	67,911
Expenses incurred in connection with the issue of shares	–	(2,508)	–	–	–	–	(2,508)
Dividend paid	–	–	–	–	–	(5,001)	(5,001)
At 31st December, 2006	1,069	64,401	19,350	2,462	2,276	75,761	165,319

The special reserve represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of share capital of the subsidiaries acquired pursuant to the Group's reorganisation.

As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the PRC subsidiary of the Company is required to maintain a statutory surplus reserve fund, which is non-distributable. Appropriation to such reserve is made out of profit after taxation of the statutory financial statements of the PRC subsidiary while the amount and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	2006 US$'000	2005 US$'000
Operating activities		
Profit before taxation	**22,867**	21,014
Adjustments for:		
Interest income	**(5,165)**	(414)
Depreciation on investment properties	**62**	59
Depreciation and amortisation on property, plant and equipment	**3,894**	3,575
Loss on disposal of property, plant and equipment	**3**	62
Operating lease rentals in respect of land use rights	**5**	9
Inventories written off	**–**	14
Write back of allowances for bad and doubtful debts	**(153)**	–
Operating cash flows before movements in working capital	**21,513**	24,319
(Increase) decrease in inventories	**(2,637)**	1,763
(Increase) decrease in trade and other receivables	**(1,922)**	11,968
(Increase) decrease in amounts due from related companies	**(204)**	8,172
Increase in amounts due from shareholders	**(60)**	(35)
Increase (decrease) in trade and other payables	**4,579**	(3,898)
Decrease in amounts due to related companies	**–**	(3,553)
Cash from operations	**21,269**	38,736
Mainland China income tax paid	**(260)**	(803)
Net cash from operating activities	**21,009**	37,933
Investing activities		
Interest received	**5,165**	414
Purchase of property, plant and equipment	**(5,389)**	(1,328)
Proceeds from disposal of property, plant and equipment	**138**	8
Purchase of land use rights	**–**	(52)
Deposits paid on acquisition of property, plant and equipment	**(203)**	(291)
Net cash used in investing activities	**(289)**	(1,249)
Financing activities		
Dividends paid	**(5,001)**	(4,522)
Proceeds from issue of shares	**67,911**	–
Expenses incurred in connection with issue of shares	**(2,508)**	–
Net cash from (used in) financing activities	**60,402**	(4,522)
Net increase in cash and cash equivalents	**81,122**	32,162
Cash and cash equivalents at 1st January	**43,610**	12,240
Effect of foreign exchange rate changes	**320**	(792)
Cash and cash equivalents at 31st December	**125,052**	43,610
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**125,052**	43,610

1. GENERAL AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company is incorporated in the Cayman Islands and registered as an exempted company with limited liability. Its shares were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10th February, 2006. The principal activities of its subsidiaries are set out in note 25. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

Through a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares (the "Group Reorganisation"), the Company became the ultimate holding company of the Group on 16th November, 2005. Details of the Group Reorganisation are more fully explained in Appendix VI to the prospectus of the Company dated 26th January, 2006 (the "Prospectus"). The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements for the year ended 31st December, 2005 have been prepared using the principles of merger accounting. The consolidated income statement, consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31st December, 2005 have been prepared on the basis as if the current group structure had been in existence throughout the period or since their date of incorporation where this is a shorter period. The consolidated balance sheet of the Group as at 31st December, 2005 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those dates.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Standard, Amendments and Interpretations (new "HKFRS"s) issued by the Hong Kong Institute of Certified Public Accountants, which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of these new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The Group has not early applied the following new Standards, Amendments and Interpretations ("INT"s) that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards, Amendments or INTs will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures [1]
HKFRS 7	Financial instruments: Disclosures [1]
HKFRS 8	Operating segments [2]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [3]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [4]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives [5]
HK(IFRIC) – INT 10	Interim financial reporting and impairment [6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions [7]
HK(IFRIC) – INT 12	Service concession arrangements [8]

[1] Effective for annual periods beginning on or after 1st January, 2007.

[2] Effective for annual periods beginning on or after 1st January, 2009.

[3] Effective for annual periods beginning on or after 1st March, 2006.

[4] Effective for annual periods beginning on or after 1st May, 2006.

[5] Effective for annual periods beginning on or after 1st June, 2006.

[6] Effective for annual periods beginning on or after 1st November, 2006.

[7] Effective for annual periods beginning on or after 1st March, 2007.

[8] Effective for annual periods beginning on or after 1st January, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the historical cost convention and HKFRSs and include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Companies Ordiance. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-group transactions, balances, income and expenses are eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Rental income, including rentals invoiced in advance, from investment properties let under operating leases is recognised on a straight line basis over the period of the respective leases.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are carried at cost less accumulated depreciation and accumulated impairment loss, if any. The cost of investment properties are depreciated over its estimated useful life of 20 or 50 years using the straight line method. Gains or losses arising from disposal of the property is determined as difference between the sales proceeds and the carrying amount of the property and is recognised in the income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and any identified impairment loss at the balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continue use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

For the leasehold land and buildings in Hong Kong where the cost of leasehold land cannot be reliably separated from the cost of leasehold land and buildings, the cost of leasehold land and buildings is depreciated and amortised over the lease term of 50 years using the straight line method.

The cost of buildings in Mainland China (the "PRC") is depreciated over 20 years using the straight line method.

The cost of leasehold improvements is depreciated on a straight line basis over the period of the respective leases or 5 years, whichever is shorter.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture, fixtures and equipment	20%
Motor vehicles	20%
Plant and machinery	10%

Land use rights

Payment for obtaining land use rights is considered as operating lease and charged to the income statement over the period of the right using the straight line method.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

Trade and other receivables/amounts due from related companies/amounts due from shareholders

Trade and other receivables, amounts due from related companies and amounts due from shareholders are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and cash at hand and are subject to an insignificant risk of changes in value.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade and other payables

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Impairment of assets

At each balance sheet date, assets are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States Dollar ("US$")) at the rate of exchange prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve.

Share options granted to suppliers/consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share option reserve).

4. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from related companies, amounts due from shareholders and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

4. FINANCIAL INSTRUMENTS (continued)

Credit risk

The Group's principal financial assets are trade and other receivables, amounts due from related companies/shareholders and bank balances and cash. The amount disclosed on balance sheet represents the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the consolidated balance sheet are net of allowances for doubtful receivables estimated by the Group's management based on prior experience and their assessment of the current economic environment. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

5. TURNOVER AND SEGMENT INFORMATION

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

Business segment

The Group's operation is regarded as a single segment, being an enterprise engaged in the manufacture and sales of plastic and metallic parts and components of optical and opto-electronic products.

Geographical segment

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as over 90% of which are generated from or situated in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

6. PROFIT BEFORE TAXATION

	2006	2005
	US$'000	US$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 7)*	**114**	24
Other staff's retirement benefits scheme contributions	**143**	127
Other staff costs	**8,326**	6,426
	8,583	6,577
Less: Staff costs included in research and development costs	**(190)**	(206)
	8,393	6,371
Depreciation and amortisation of property, plant and equipment	**3,894**	3,575
Less: Depreciation and amortisation included in research and development costs	**(7)**	(7)
	3,887	3,568
Auditor's remuneration	**174**	203
Depreciation on investment properties	**62**	59
Exchange loss	**504**	–
Loss on disposal of property, plant and equipment	**3**	62
Operating lease rentals in respect of		
– land use rights	**5**	9
– motor vehicles	**42**	–
– plant and machinery	**677**	–
– rented premises	**751**	775
Research and development costs	**835**	910
and after crediting:		
Exchange gain	**–**	850
Interest income	**5,165**	414
Property rental income before deduction of negligible outgoings	**529**	716
Write back of allowances for bad and doubtful debts	**153**	–

7. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS

Details of emoluments paid by the Group to the directors are as follows:

	2006			2005		
	Fees	**Salaries and other benefits**	**Total**	Fees	Salaries and other benefits	Total
	US$'000	**US$'000**	**US$'000**	US$'000	US$'000	US$'000
Executive directors						
Mr. Cheng Wen-Tao	**15**	**–**	**15**	3	–	3
Mr. Tong Ching-Hsi	**15**	**–**	**15**	3	–	3
Mr. Liao Kuo-Ming	**15**	**–**	**15**	3	–	3
Non-executive directors						
Mr. Lai I-Jen	**15**	**–**	**15**	3	–	3
Ms. Wu Shu-Ping	**15**	**–**	**15**	3	–	3
Independent non-executive directors						
Ms. Chiang Hsiang-Tsai	**13**	**–**	**13**	3	–	3
Mr. Chou Chih-Ming	**13**	**–**	**13**	3	–	3
Mr. Lai Chung-Hsiung	**13**	**–**	**13**	3	–	3
	114	**–**	**114**	24	–	24

The five highest paid individuals are as follows:

	2006	2005
	US$'000	US$'000
Employees		
– basic salaries and allowances	**76**	70
– retirement benefits scheme contributions	**3**	2
	79	72

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group. None of the directors has waived any emoluments during the year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

8. TAXATION

	2006	2005
	US$'000	US$'000
The charge comprises:		
PRC income tax calculated at the applicable income tax rate on the estimated assessable profit for the year	**(357)**	(1,021)
Deferred taxation	**146**	37
	(211)	(984)

The PRC subsidiary is entitled to 50% relief from PRC income tax pursuant to relevant PRC laws and regulations as it is classified as an export enterprise.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group's profits neither arises in nor derived from Hong Kong during the year.

Tax charge for the year is reconciled to the profit before taxation as follows:

	2006		2005	
	US$'000	**%**	US$'000	%
Profit before taxation	**22,867**		21,014	
Tax at the applicable income tax rate	**(7,546)**	**(33.0)**	(6,935)	(33.0)
Tax effect of expenses not deductible for tax purposes	**(268)**	**(1.2)**	(116)	(0.6)
Tax effect of income not taxable for tax purposes	**1,880**	**8.2**	852	4.1
Tax effect of deemed deductions in the PRC	**5,755**	**25.2**	3,828	18.2
Effect of tax exemption granted to the PRC subsidiary	**–**	**–**	1,350	6.4
Others	**(32)**	**(0.1)**	37	0.2
Tax charge and effective tax rate for the year	**(211)**	**(0.9)**	(984)	(4.7)

9. DIVIDENDS

	2006 US$'000	2005 US$'000
Special interim dividend of US0.60 cents (2005: Nil) per share paid	**5,001**	–
Final dividend of US1.58 cents per share proposed (2005: US8.61 cents per share paid)	**13,088**	4,522
	18,089	4,522

The final dividend of HK$0.123 (approximately US1.58 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting. It is calculated on the basis of 830,000,000 shares in issue at the date of this report.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the consolidated profit for the period attributable to equity holders of the Company of US$22,656,000 (2005: US$20,030,000) and on the weighted average number of 807,534,247 shares (2005: 640,000,000 shares in issue during the year on the assumption that the Group Reorganisation had been effective on 1st January, 2005).

No diluted earnings per share is presented as there were no potential dilutive shares during the year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

11. INVESTMENT PROPERTIES

	2006	2005
	US$'000	US$'000
COST		
At 1st January	**1,330**	1,298
Currency realignment	**40**	32
At 31st December	**1,370**	1,330
DEPRECIATION		
At 1st January	**495**	424
Currency realignment	**15**	12
Provided for the year	**62**	59
At 31st December	**572**	495
CARRYING VALUE		
At 31st December	**798**	835
The carrying value of the Group's investment properties held under medium-term leases are situated in:		
– Hong Kong	**66**	68
– the PRC	**732**	767
	798	835

The fair value of the Group's investment properties at the balance sheet date was approximately US$1,510,000 (2005: US$1,230,000). The fair value has been arrived at based on a valuation as at 31st December, 2006 determined by the directors of the Company. No valuation has been performed by independent qualified professional valuers. The valuation performed by the directors of the Company was carried out with reference to recent market prices for similar properties.

All the Group's investment properties are held for rental purposes under operating leases.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings US$'000	Furniture, fixtures and equipment US$'000	Leasehold improvements US$'000	Motor vehicles US$'000	Plant and machinery US$'000	Total US$'000
At 1st January, 2005	3,994	4,939	806	719	26,575	37,033
Currency realignment	96	133	27	17	724	997
Additions	–	242	387	–	1,477	2,106
Disposals	–	(39)	–	(117)	(108)	(264)
At 31st December, 2005	4,090	5,275	1,220	619	28,668	39,872
Currency realignment	125	200	46	18	995	1,384
Additions	62	1,901	370	1	4,733	7,067
Disposals	–	(229)	–	(58)	(286)	(573)
At 31st December, 2006	4,277	7,147	1,636	580	34,110	47,750
DEPRECIATION AND AMORTISATION						
At 1st January, 2005	1,265	1,835	298	343	8,308	12,049
Currency realignment	38	57	11	8	257	371
Provided for the year	175	607	220	66	2,507	3,575
Eliminated on disposals	–	(35)	–	(105)	(54)	(194)
At 31st December, 2005	1,478	2,464	529	312	11,018	15,801
Currency realignment	52	97	22	12	386	569
Provided for the year	183	1,133	310	196	2,072	3,894
Eliminated on disposals	–	(199)	–	(52)	(181)	(432)
At 31st December, 2006	1,713	3,495	861	468	13,295	19,832
NET BOOK VALUES						
At 31st December, 2006	2,564	3,652	775	112	20,815	27,918
At 31st December, 2005	2,612	2,811	691	307	17,650	24,071

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	2006 US$'000	2005 US$'000
The carrying amounts of the Group's property interests comprises:		
Properties held under medium-term leases		
– land and buildings in Hong Kong	**153**	158
– buildings in the PRC	**2,411**	2,454
	2,564	2,612

13. LAND USE RIGHTS

	2006 US$'000	2005 US$'000
CARRYING VALUE		
At 1st January	**238**	192
Currency realignment	**8**	3
Additions during the year	**–**	52
Charged to income statement during the year	**(5)**	(9)
At 31st December	**241**	238

Land use rights represent prepayment of rentals for land situated in the PRC for a period of 50 years.

14. DEFERRED TAXATION

The following is the deferred tax asset recognised by the Group and movements thereon during the year.

	Difference in depreciation US$'000
At 1st January, 2005	990
Currency realignment	26
Credit to income statement for the year	37
At 31st December, 2005	1,053
Currency realignment	33
Credit to income statement for the year	146
At 31st December, 2006	1,232

15. INVENTORIES

	2006 US$'000	2005 US$'000
Raw materials	**3,298**	1,483
Work in progress	**112**	109
Finished goods	**1,092**	273
	4,502	1,865

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

16. OTHER FINANCIAL ASSETS

Trade and other receivables

	2006 US$'000	2005 US$'000
Trade receivables		
– related companies in which certain directors of the Company have beneficial interests	**1,913**	782
– others	**19,101**	17,335
	21,014	18,117
Other receivables	**178**	1,000
	21,192	19,117

Payment terms with customers are mainly on credit together with deposits. Invoices to outside customers are normally payable within 60 to 120 days of issuance, while invoices to long-established customers are normally payable within one year. The following is an aged analysis of trade receivables at the balance sheet date.

	2006 US$'000	2005 US$'000
Age		
0 to 60 days	**15,051**	13,338
61 to 90 days	**4,157**	3,499
91 to 180 days	**1,561**	2,216
181 to 365 days	**937**	131
1 – 2 years	**101**	22
Over 2 years	**230**	270
	22,037	19,476
Less: Allowance for bad and doubtful debts	**(1,023)**	(1,359)
	21,014	18,117

The directors consider the carrying amount of trade and other receivables approximates its fair value.

Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry at the prevailing market interest rate of approximately 3.8% (2005: 3.7%) per annum. The directors consider the fair value of the bank deposits approximates to the corresponding carrying amount.

17. AMOUNTS DUE FROM RELATED COMPANIES/SHAREHOLDERS

The directors consider the carrying amount of amounts due from related companies and shareholders approximates their fair values.

The amounts due from related companies which represent companies in which certain substantial shareholders of the Company, Ability Enterprises (BVI) Co. Ltd. ("Ability Enterprise") and Asia Promotion Optical International Ltd. ("Asia Promotion") have beneficial interests are interest-free and repayable on demand.

The amounts due from shareholders which represent amounts due from Ability Enterprise and Asia Promotion are interest-free and repayable on demand.

18. TRADE AND OTHER PAYABLES

	2006 **US$'000**	2005 US$'000
Trade payables		
– related companies in which certain directors of the Company have beneficial interests	**30**	21
– others	**10,797**	6,387
	10,827	6,408
Balance of consideration payable for purchase of property, plant and equipment	**1,824**	437
Payroll and welfare payables	**1,060**	846
Other payables	**1,911**	1,965
	15,622	9,656
Age		
0 to 60 days	**9,002**	5,404
61 to 90 days	**1,477**	715
91 to 180 days	**239**	289
181 to 360 days	**109**	–
	10,827	6,408

The directors consider the carrying amount of trade and other payables approximates its fair value.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

19. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares '000	Amount HK$'000	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.01 each				
– at 1st January, 2005	50,000	500	100	1
– increase in authorised share capital	950,000	9,500	–	–
– issued pursuant to Group Reorganisation	–	–	52,400	524
– at 31st December, 2005	1,000,000	10,000	52,500	525
– issue of shares pursuant to a subscription agreement	–	–	17,500	175
– issue of shares on capitalisation issue	–	–	570,000	5,700
– issue of shares by placing and public offer	–	–	190,000	1,900
– at 31st December, 2006	1,000,000	10,000	830,000	8,300

	US$'000
Shown in the consolidated balance sheet	
– at 31st December, 2006	1,069
– at 31st December, 2005	67

On 20th January, 2006, a subscription agreement as more fully explained in paragraph headed "Summary of material contracts" in Appendix VI to the Prospectus, was entered into amongst Fortune Lands International Limited (the "Fortune Lands"), Richman International Group Co., Ltd. (the "Richman International") and the Company pursuant to which Fortune Lands subscribed for 13,125,000 shares of the Company at HK$38,400,000 and Richman International subscribed for 4,375,000 shares of the Company at HK$70,400,000 respectively on the same date.

According to the written shareholders' resolution of the Company dated 18th January, 2006, an amount of HK$5,700,000 (equivalent to US$735,000) was capitalised on 1st February, 2006 to the Group's share premium account pursuant to the Group Reorganisation.

On 9th February, 2006, 200,000,000 ordinary shares of HK$0.01 each of the Company consisted of 160,000,000 new shares and 40,000,000 sale shares that were issued and sold, respectively, at HK$2.2 per share by way of placing and public offer.

On 1st March, 2006, an over-allotment option was exercised pursuant to a written shareholders' resolution of the Company for further issuance of 30,000,000 shares of HK$0.01 each of the Company at HK$2.2 per share.

20. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 18th January, 2006 for the primary purpose of providing incentives to and recognising significant contributions from directors and eligible employees, and will expire on 17th January, 2016. Under the Scheme, the Board of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services to the Company and for the purpose of rewarding their contribution to the long term success of the Group by providing the opportunity to obtain ownership interest in the Group.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue on the date of listing of shares on the Stock Exchange in issue which represents 80,000,000 shares (excluding the over-allotment portion), without prior approval from the Company's shareholders. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under this Scheme shall not in aggregate exceed 30% of the shares in issue from time to time. No option may be granted under this Scheme and any other share option scheme of the Company if such limit is exceeded. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share in issue or with an aggregate value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 14 days of the date of grant, upon payment in total of HK$1. Options may be exercised at any time immediately from the date of grant of the share option and during the period in which notified by the directors at date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Up to 31st December, 2006, no options were granted to directors, eligible employees and other outside third parties under the Scheme.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

21. OPERATING LEASE ARRANGEMENTS

The Group as leasee

At the balance sheet date, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Motor vehicles		Plant and machinery		Rented premises	
	2006	2005	**2006**	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Within one year	**39**	–	**677**	–	**559**	754
In the second to fifth year inclusive	**23**	–	**1,522**	–	**–**	550
	62	–	**2,199**	–	**559**	1,304

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for future minimum lease payments in respect of rented investment properties which fall due as follows:

	2006	2005
	US$'000	US$'000
Within one year	**546**	547
In the second to fifth year inclusive	**–**	541
	546	1,088

22. CAPITAL COMMITMENTS

	2006	2005
	US$'000	US$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	**332**	42

23. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group and each of the employee make monthly mandatory contributions to the Scheme.

The employees employed in the PRC subsidiary are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No forfeited contributions are available to reduce the contribution payable in the future years.

24. RELATED PARTY TRANSACTIONS

During the year, the Group has the following significant transactions with related companies in which certain directors of the Company Messrs. Cheng Wen-Tao and Tong Ching-Hsi have beneficial interests:

Nature of transactions	**2006**	2005
	US$'000	US$'000
Sales of goods	**4,595**	1,906
Purchase of raw materials	**790**	1,524
Interest income	**–**	11
Property rental income	**317**	457
Agency handling income	**–**	222
Management fee paid	**1,198**	1,129

The Company's directors represented the Group's key management and their emoluments for the year are set out in note 7.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

25. SUBSIDIARIES

Details of the Company's subsidiaries, all of which are wholly-owned by the Company, at 31st December, 2006 are as follows:

Name of subsidiary	Country of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activities
Yorkey Optical Technology Limited	Samoa/PRC	US$550,001	Investment holding and trading of plastic and metallic parts and components of optical and opto-electronic products
Bioamazing Services Limited	British Virgin Islands/PRC	US$1	Provision of research technical support services
Click Away Services Limited	British Virgin Islands/PRC	US$1	Provision of technical training and after sales services
東莞精熙光機有限公司 (Dongguan Yorkey Optical Machinery Components Ltd.)	PRC wholly foreign owned enterprise established for a term of 30 years commencing 11th December, 1995	US$16,300,000	Manufacture and sales of plastic and metallic parts and components of optical and opto-electronic products

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Financial Summary

	Year ended 31st December,				
	2002	2003	2004	2005	**2006**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
RESULTS					
Turnover	41,311	56,285	66,855	78,871	**82,220**
Profit before taxation	6,886	10,737	10,814	21,014	**22,867**
Taxation	(422)	(653)	379	(984)	**(211)**
Profit for the year	6,464	10,084	11,193	20,030	**22,656**

	As at 31st December,				
	2002	2003	2004	2005	**2006**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
ASSETS AND LIABILITIES					
Total assets	58,586	74,937	82,812	91,385	**181,800**
Total liabilities	(35,466)	(41,423)	(37,022)	(10,322)	**(16,481)**
Net assets	23,120	33,514	45,790	81,063	**165,319**

The results and summary of assets and liabilities for each of the three years ended 31st December, 2004, which were extracted from the Company's prospectus dated 26th January, 2006 have been prepared on a combined basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on The Stock Exchange of Hong Kong Limited, had been in existence throughout those years.