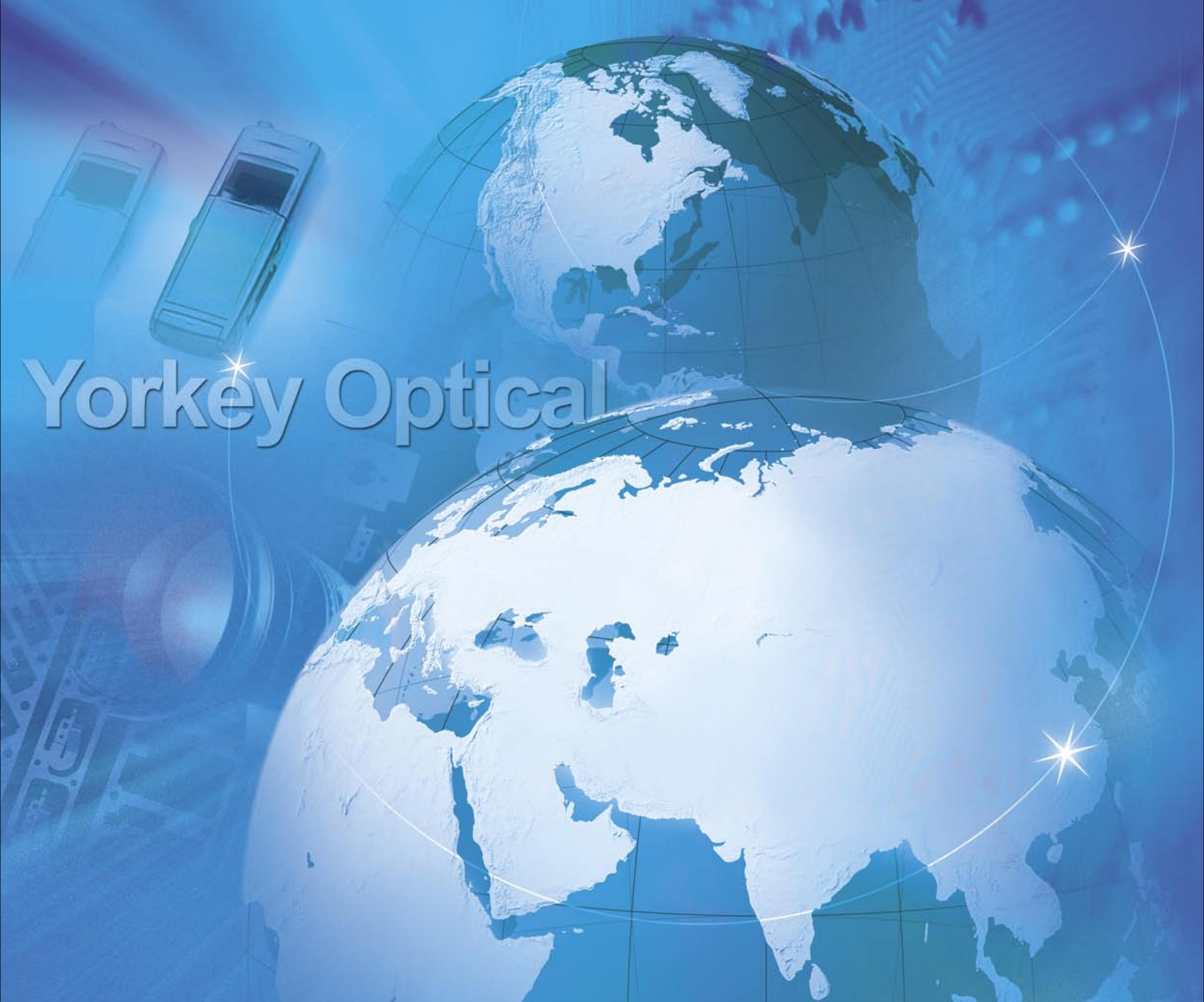
YORKEY

Stock Code : 2788

YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.

精熙國際(開曼)有限公司*

(incorporated in the Cayman Islands with limited liability)



Annual Report 2005

* For identification purpose only

Contents

Corporate Information

Executive Directors

Cheng Wen-Tao
Tong Ching-Hsi
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, CPA (Aust.)

Registered Office

Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681GT
George Town, Grand Cayman
British West Indies

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

Auditors

Deloitte Touche Tohmatsu

Compliance Adviser

SinoPac Securities (Asia) Limited

Principal Bankers

The Hong Kong and Shanghai Banking Corporation Ltd.
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

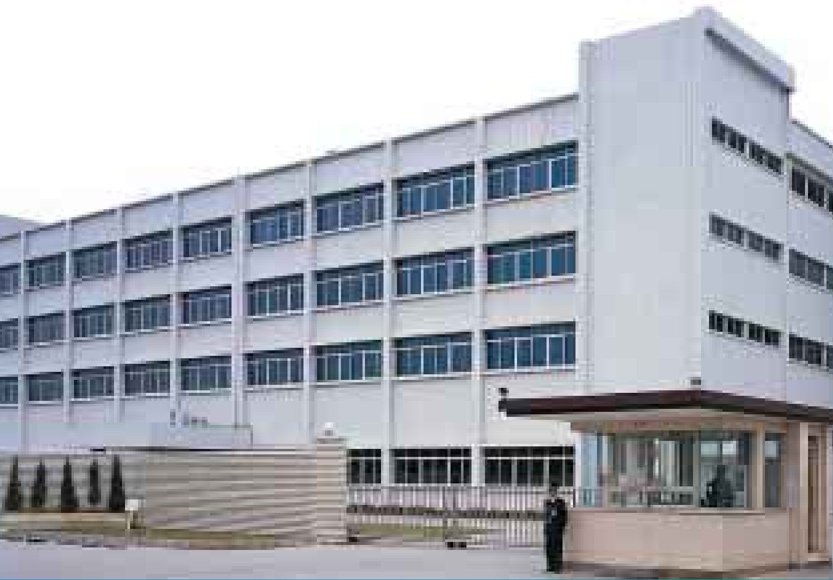
Hong Kong Branch Share Registrar and Transfer Office

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

Stock Code

2788

Chairman's Statement



I am extremely pleased to report to you the first set of annual results of Yorkey Optical International (Cayman) Ltd. (the "Company") and its subsidiaries (collectively the "Group") as a public-listed company. Year 2005 was a tremendously successful year for us. Our success is based on the dedication of our employees and the support from our shareholders. We will continue to be prudent in all our growth plans as we move into 2006.

IPO Success

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 (together, the "Group") for the year ended December 31, 2005 for their consideration. The shares of the Company were successfully listed and commenced trading on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on February 10, 2006. I would like to take this opportunity to express my gratitude to those who have contributed to the listing of the Company.

I am also pleased to report to our shareholders that the overall business has attained a rewarding result for the year ended December 31, 2005. The Group recorded a turnover and profit attributable to shareholders of approximately US$78,871,000 and approximately US$20,030,000 respectively, representing an increase of approximately 18% and approximately 79% respectively as compared with that of 2004. The board of directors of the Company recommended a special interim dividend for 2006 of HK$0.047 per share.

Chairman's Statement

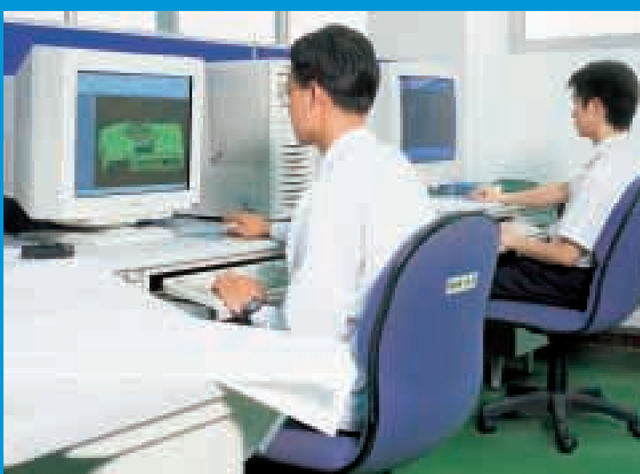
Business Review and Outlook

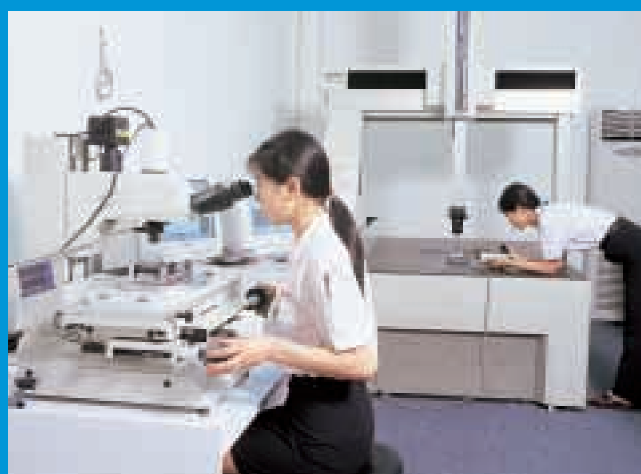
The Group is principally engaged in the manufacture and sale of plastic and metallic parts and components of optical and opto-electronic products including DSCs, copiers (including copier-based MFPs), computer peripherals, handsets, traditional film cameras, and others, and subsequently related accessories. During the past year, the Group continued to provide customer-oriented services and vertically integrated manufacturing solutions to the customers. The success in providing "one-stop" solutions to our reputable customers such as Canon, Nikon, Olympus, Epson, Konica Minolta, Pentax, Ricoh, Samsung and Toshiba has allowed the Group to have a competitive advantage over its competitors.

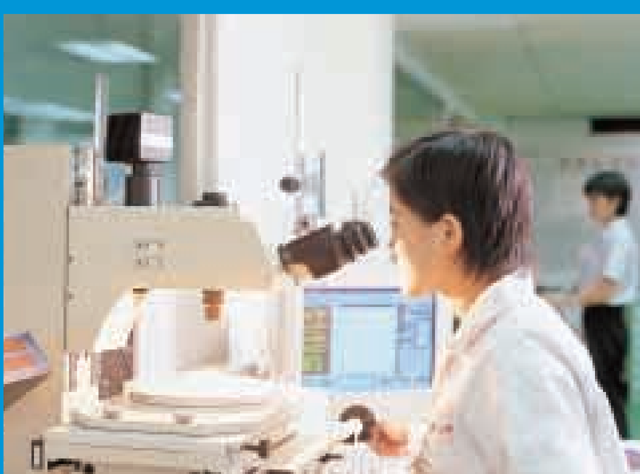
We believe that high product quality is a major contributory factor to the Group's success. Therefore, we will continue to (1) emphasize our research and development capability for the improvement of production techniques and procedures, (2) acquire additional advanced machinery and precision equipment in order to strengthen our production capacity.

Although we had a remarkable year, the Group will remain cautious about the rapidly changing and competitive market where we will face price fluctuation for raw materials and fierce competition within the industry. However, we believe that our experienced management team will create and sustain all our competitive advantages to consolidate the Group's position in the industry and will continue to strive for operational success.

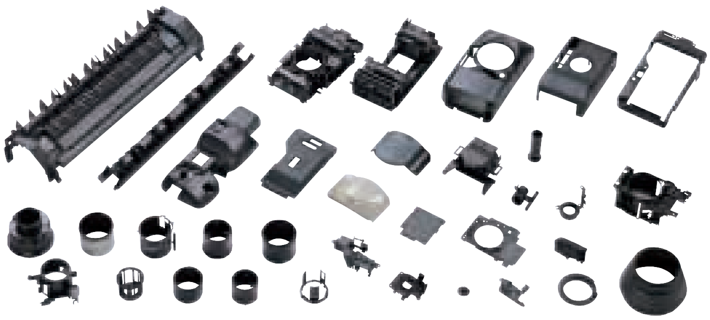
Diversified Quality Products







Chairman's Statement



Acknowledgement

On behalf of the board of directors, I would like to take this opportunity to extend our 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.

TONG Ching-Hsi
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 DSCs, copier (including copier-based MFPs), 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 successfully listed on the Stock Exchange on 10 February 2006.

Turnover

The turnover of the Group for the year was approximately US$78,871,000, representing an increase of approximately 18% as compared with approximately US$66,855,000 for the last year.

The growth in the turnover was due to the continued increase in demand for optical and opto-electronic products, especially camera handsets and DSCs resulting in a continued increase in shipment of components and accessories of DSCs, copiers/printers and handsets.

Gross Profit

The gross profit of the Group increased by 32% to US$32,206,000 in 2005 from US$24,457,000 in 2004. Gross profit margin was approximately 40.8% in 2005 as compared with approximately 36.6% in 2004. The gross profit improvement were mainly due to economies of scale, enhanced technique and quality control which enhanced product yield rate and the improvement in the products mix with the increase in the percentage of high gross margin components, such as high end zoom lenses mechanical parts.

Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company for the year ended 31 December 2005 was approximately US$20,030,000, representing an increase of 79.0% as compared with US$11,193,000 in 2004 and was approximately 3.8% higher than the profit estimate of approximately US$19,300,000 (equivalent to approximately HK$149,770,000) as stated in the Prospectus.

Liquidity and Financial Resources

As at 31 December 2005, the Group had current assets of approximately US$64,897,000 (2004: US$55,431,000) while current liabilities of approximately US$10,322,000 (2004: US$37,022,000). The current ratio of the Group was approximately 629% (2004: 150%).

The Group financed its operation with internally generated resources. As at 31 December 2005, the Group had cash at bank and on hand of approximately US$43,610,000 (2004: US$12,240,000), and no bank borrowings.

Net cash generated from operating activities in 2005 was US$37,933,000, representing an increase of 373%, compared with US$8,012,000 for the last year, mainly due to obvious growth in pre-tax profit and accelerated operation cycle (accounts receivable turnover days + inventory turnover days – accounts payable turnover days) lowering from 111 days in 2004 to 43 days in 2005.

Management Discussion and Analysis

Net cash outflow from investing activities in 2005 was US$1,249,000, representing capital expenditures primarily for the purchase of additional machinery and equipment.

Net cash outflow from financing activities was US$4,522,000, incurred for paying dividend of 2004. The Group focused on its core business and pursued long-term stable growth, therefore the Group had adopted conservative principles in its financial operation. Working capital can fully meet the demand of capital expenditure and there is no need for debt 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 expenditure.

Exchange Risk Exposure and Contingent Liabilities

The Group's sales were principally denominated in US dollars and Hong Kong dollars while purchases were also transacted mainly in US dollars, Renminbi, and Hong Kong dollars. The Group does not foresee significant risk in exchange rate fluctuation and no financial instruments have been used for hedging purposes. The group will use forward exchange contract for hedging purposes appropriately.

As at 31 December 2005, the Group had no significant contingent liabilities.

Capital Commitment

As at 31 December 2005, the capital commitment of Group was US$42,000 (2004: US$229,000).

Employment, Training and Development

As at 31 December 2005, the Group had a total of 2,587 employees. Remuneration packages of the Group are maintained at a competitive level to attract, retain and motivate employees and are reviewed on a periodical basis.

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

Outlook

Following the enhancement of production facilities in various business divisions of the Group by acquiring additional advanced machinery and precision equipment, the Group's future production capacity and its market competitiveness would be further enhanced. Moreover, the Group has a broad customer base including Canon, Ricoh, Olympus, Pentax, Nikon, etc which provide long-term stable growth, and will continue to provide a variety of products to meet different customers' specification.

Looking forward to 2006, with continuing outsourcing trend, growing popularity of camera handsets and increasing demand from emerging markets, the directors believe that market scales will expand continuously, which brings sustainable growth to the Group's business activities. The Group's management is confident that the business will continue to grow in the future and generate good returns to its shareholders.

Management Discussion and Analysis

Dividend

The Board has resolved not to recommend the payment of any dividend in respect of the year ended 31 December 2005. However, the Board has resolved to recommend a special interim dividend of HK$0.047 (approximately US0.60 cents) per ordinary share amounting to approximately HK$39,010,000 (approximately US$5,001,000) in respect of the year ending 31 December 2006 and the special interim dividends is expected to be paid on or around 20 July 2006 to those shareholders whose name appear on the register of members of the Company on 20 June 2006.

Biographical Details of Directors and Senior Management.

Executive Directors

Mr. CHENG Wen-Tao（鄭文濤）, aged 70, 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. TONG Ching-Hsi（董烱熙）, aged 70, is an executive Director and the founder of the Group. Mr. Tong is responsible for the strategic planning of the Group. Mr. Tong graduated from the department of mechanical engineering in the School of Science and Engineering, Waseda University, Japan（日本早稻田大學第一理工學部機械工學科）. Mr. Tong established Ability Enterprise Co., Ltd.("Ability Enterprise") in 1965 and has accumulated more than twenty years experience in the manufacture and management. Ability Enterprise was listed on the Taiwan Stock Exchange Corporation ("Taiwan Stock Exchange") in 1995 and Mr. Tong is currently a director of Ability Enterprise.

Mr. LIAO Kuo-Ming（廖國銘）, aged 69, 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 operating Asia Promotion Optical Inc. which has been engaged in the import and export business for more than fifteen 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）and he is also 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 57, joined the Group in December 2005 as a non-executive Director. 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 43, joined the Group in December 2005 as a non-executive Director. She is currently a director, the chief financial officer and spokesperson of Asia Optical where she has worked for the past 23 years. Ms. Wu used to hold a directorship of various companies and is currently a director of Creative Sensor Inc., a company listed on the Taiwan Stock Exchange. She has an extensive financial background and had been actively involved in the listing, overseas financing and mergers and 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.

Biographical Details of Directors and Senior Management

Independent non-executive Directors

Mr. CHIANG Hsiang-Tsai（江向才）, aged 35, 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 US 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 had worked for the accounting department of Formosa Chemicals & Fibre Corporation（台灣化學纖維股份有限公司）as a cost accountant during the period from May 1995 to July 1996. Formosa Chemicals & Fibre Corporation is a listed company in Taiwan. Mr. Chiang is currently a full-time associate professor（專任助理教授）with the department of accounting and the vice chief（副主任）of the accounting office in Feng Chia University in Taiwan, a part-time associate professor（兼任助理教授）with the department of accounting in Soochow University in Taiwan.

Mr. CHOU Chih-Ming（周智明）, aged 47, 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 of around 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（台中縣稅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（中華民國稅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 62, 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 50, 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 42, is the department head of the mould technology department of the Group. Mr. Wu had been working in the Group for more than 7 years and had been the manager of the mould technology department up to now. Mr. Wu joined the Group in July 1998.

Mr. CHAN Sun-Ko（詹孫科）, aged 37, 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 field industry and has more than 10 years of experience in this industry up to now. He joined the Group in July 1998.

Biographical Details of Directors and Senior Management.

Mr. HO, Tsun-Jen (何聰仁), aged 50, 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 54, 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 about 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 31, 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 company secretary and 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 CPA, Australia.

Directors' Report

The directors are pleased to present their first annual report and the audited consolidated financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31st December, 2005.

Corporate Reorganisation

The Company was incorporated with limited liability in the Cayman Islands on 13th October, 2004.

Pursuant to a group reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 16th November, 2005.

Details of the group reorganisation are set out in note 1 to the financial statements and are more fully explained in the paragraph headed "Group reorganisation" (the "Group Reorganisation") in Appendix VI to the prospectus of the Company dated 26th January, 2006 (the "Prospectus").

The shares of the Company were listed on the Main Board of the Stock Exchange with effect from 10th February, 2006.

Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 26 to the financial statements.

Results

The results of the Group for the year are set out in the consolidated income statement on page 23.

Dividends

During the year, a dividend totalling US$4,522,000 was declared by the Company and was paid in December 2005.

The Board has resolved not to recommend the payment of any dividend in respect of the year ended 31st December, 2005. However, the Board has resolved to recommend a special interim dividend of HK$0.047 (approximately US0.60 cents) per ordinary share amounting to approximately HK$39,010,000 (approximately US$5,001,000) for the year ending 31st December, 2006 and the special interim dividends is expected to be paid on or around 20th July, 2006 to those shareholders whose names appear on the register of members of the Company on 20th June, 2006.

Trading Results and Published Profit Estimate

The Group's consolidated profit for the year of US$20,030,000, represents an excess of US$730,000 over the profit estimate as set out in Appendix II to the Prospectus.

Directors' Report

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 during the year are set out in the consolidated statement of changes in equity on page 25.

At 31st December, 2005, the Company's reserve available for distribution to its shareholders comprises contributed surplus amounted to approximately US$85,842,000.

Investment Properties

Details of the investment properties of the Group during the year are set out in note 10 to the financial statements.

Properties, Plant and Equipment

Details of the movement in property, plant and equipment of the Group during the year are set out in note 11 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 32 percent and 71 percent 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 10 percent and 32 percent of the Group's total purchase for the year.

Save and except for Asia Optical International Ltd. and Asia Promotion Optical Inc., none of the Directors, their respective associates or, so far as the Directors are aware, any Shareholder who 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' Report

Directors and Directors' Service Contracts

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Cheng Wen-Tao *(CEO)*	(appointed on 8th November, 2004)
Mr. Tong Ching-Hsi *(Chairman)*	(appointed on 22nd July, 2005)
Mr. Liao Kuo-Ming	(appointed on 22nd July, 2005)

Non-executive directors:

Mr. Lai I-Jen	(appointed on 20th December, 2005)
Ms. Wu Shu-Ping	(appointed on 20th December, 2005)

Independent non-executive directors:

Mr. Chiang Hsiang-Tsai	(appointed on 20th December, 2005)
Mr. Chou Chih-Ming	(appointed on 20th December, 2005)
Mr. Lai Chung-Hsiung	(appointed on 20th December, 2005)

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 which is not expiring or determinable by the employing company within one year without payment of compensation other than statutory compensation.

The Company had received confirmation from each of the 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 and the respective letters of appointment, Mr. Cheng Wen-Tao, Mr. Tong Ching-Hsi, 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 6 to the financial statements on page 35 of this annual report.

Directors' Report

Directors' Interests in Shares

As at 31st December 2005, the Company had not received any notice of interests to be recorded under Section 352 of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong ("SFO") as the Company had not been listed on the Stock Exchange as at that date.

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 2005, the Company had not received any notice of interests to be recorded under Section 336 of the SFO as the Company had not been listed on the Stock Exchange as at that date.

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.

Since the Share Option Scheme had only 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 2005.

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 83,000,000 Shares, representing 10% of the issued share capital of the Company as at the date of this annual report.

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.

There is no general requirement that an option must be held for any minimum period before it can be exercised but the board of directors of the Company 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 highest 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.

Connected Transactions

During 2005, the Company was not listed and did not have any connected transactions which were subject to the requirements of the Listing Rules.

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 6 to the financial statements.

The contributions to pension schemes for directors and past directors for the financial year are disclosed in note 6 to the financial statements.

Directors' Report

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

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, 2005. The Company did not have any listed securities before its shares were listed on the Stock Exchange on 10th February, 2006.

Post Balance Sheet Event

Details of significant events occurring after the balance sheet date are set out in note 25 to the financial statements.

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.

Auditors

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

On behalf of the Board

TONG CHING-HSI
Chairman

13 April 2006

Corporate Governance Report

Corporate Governance Practices

The Group is committed to ensuring high standards of corporate governance in the interest of its shareholders.

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").

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 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 Directors of the Company comprises three executive Directors, namely, Mr. Cheng Wen-Tao, Mr. Tong Ching-Hsi 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.

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 Company Secretary of the Company and are sent to the Directors for records and are open for inspection by the Directors.

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 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.

Corporate Governance Report

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 on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. 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.

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 6 to the accounts.

Auditors' Remuneration

During the year ended 31st December, 2005, the fee paid/payable to auditors in respect of audit services provided by the auditors to the Group was US$203,000.

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with the code provisions under the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. 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.

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.

The Group's annual results for the year ended 31st December, 2005 have been reviewed by the audit committee.

Investor Relations

The Company is committed to maintaining 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.

Auditors' Report

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 (the "Group") from pages 23 to 49 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors of the Company are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on the consolidated financial statements 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.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our 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, 2005 and of its profit and cash flows for the year then ended 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
13th April, 2006

Consolidated Income Statement

For the year ended 31st December, 2005

	Notes	**2005 US$'000**	2004 US$'000
Turnover		**78,871**	66,855
Cost of goods sold		**(46,665)**	(42,398)
Gross profit		**32,206**	24,457
Other income		**2,310**	2,131
Distribution costs		**(1,639)**	(1,534)
Administrative expenses		**(11,863)**	(14,240)
Profit before taxation	*5*	**21,014**	10,814
Taxation	*7*	**(984)**	379
Profit for the year attributable to equity holders of the Company		**20,030**	11,193
Dividends	*8*	**9,523**	–
Earnings per share			
– Basic	*9*	**US3.13 cents**	US1.75 cents

Consolidated Balance Sheet

At 31st December, 2005

	Notes	**2005 US$'000**	2004 US$'000
Non-current assets			
Investment properties	*10*	**835**	874
Property, plant and equipment	*11*	**24,071**	24,984
Land use rights	*12*	**238**	192
Deposits made on acquisition of property, plant and equipment		**291**	341
Deferred taxation	*13*	**1,053**	990
		26,488	27,381
Current assets			
Inventories	*14*	**1,865**	3,648
Trade and other receivables	*15*	**19,117**	31,094
Amounts due from related companies	*16*	**270**	8,449
Amounts due from shareholders	*16*	**35**	–
Bank balances and cash	*15*	**43,610**	12,240
		64,897	55,431
Current liabilities			
Trade and other payables	*18*	**9,656**	13,119
Amounts due to related companies		**–**	23,447
Taxation		**666**	456
		10,322	37,022
Net current assets		**54,575**	18,409
Net assets		**81,063**	45,790
Capital and reserves			
Share capital	*19*	**67**	–
Reserves		**80,996**	45,790
Equity attributable to equity holders of the Company		**81,063**	45,790

The consolidated financial statements on pages 23 to 49 were approved and authorised for issue by the Board of Directors on 13th April 2006 and are signed on its behalf by:

CHENG Wen-Tao
CHIEF EXECUTIVE OFFICER

TONG Ching-Hsi
CHAIRMAN

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2005

	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, 2004	–	–	–	307	681	32,526	33,514
Exchange differences arising from the translation of financial statements of foreign operations recognised directly in equity	–	–	–	1,083	–	–	1,083
Profit for the year	–	–	–	–	–	11,193	11,193
Total recognised income and expenses for the year	–	–	–	1,083	–	11,193	12,276
Transfers	–	–	–	–	40	(40)	–
At 31st December, 2004	–	–	–	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	–	–	–	–	594	(594)	–
Dividend waived	–	–	–	–	–	474	474
Dividend paid	–	–	–	–	–	(4,522)	(4,522)
At 31st December, 2005	67	–	19,350	1,264	1,315	59,067	81,063

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 three statutory reserves, being a statutory surplus reserve fund, an enterprise expansion fund and a staff welfare and incentive bonus fund which are non-distributable. Appropriations to such reserves are 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. The enterprise expansion fund is used for expanding the capital base of the Company by means of capitalisation issue. Since the date of establishment of the PRC subsidiary, no appropriation was made to the enterprise expansion fund and staff welfare and incentive bonus fund.

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005	2004
	US$'000	US$'000
Operating activities		
Profit before taxation	**21,014**	10,814
Adjustments for:		
Interest income	**(414)**	(565)
Depreciation on investment properties	**59**	58
Depreciation and amortisation on property, plant and equipment	**3,575**	2,967
Loss on disposal of property, plant and equipment	**62**	111
Operating lease rentals in respect of land use rights	**9**	4
Inventories written off	**14**	26
Operating cash flows before movements in working capital	**24,319**	13,415
Decrease (increase) in inventories	**1,763**	(288)
Decrease (increase) in trade and other receivables	**11,968**	(7,446)
Decrease in amounts due from related companies	**8,172**	7,621
Increase in amounts due from shareholders	**(35)**	–
(Decrease) increase in trade and other payables	**(3,898)**	1,182
Decrease in amounts due to related companies	**(3,553)**	(6,375)
Cash from operations	**38,736**	8,109
Mainland China income tax paid	**(803)**	(97)
Net cash from operating activities	**37,933**	8,012
Investing activities		
Interest received	**414**	565
Purchase of property, plant and equipment	**(1,328)**	(9,490)
Proceeds from disposal of property, plant and equipment	**8**	1,650
Purchase of land use rights	**(52)**	–
Deposits paid on acquisition of property, plant and equipment	**(291)**	(341)
Net cash used in investing activities	**(1,249)**	(7,616)
Financing activities		
Dividends paid	**(4,522)**	–
Net increase in cash and cash equivalents	**32,162**	396
Cash and cash equivalents at 1st January	**12,240**	10,752
Effect of foreign exchange rate changes	**(792)**	1,092
Cash and cash equivalents at 31st December	**43,610**	12,240
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**43,610**	12,240

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

1. GENERAL AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company with limited liability on 13th October, 2004 under the Companies Law of the Cayman Islands and acts as an investment holding company. The principal activities of its subsidiaries are set out in note 26. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" 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 statements, consolidated statement of changes in equity and the consolidated cash flow statements for the years ended 31st December, 2004 and 31st December, 2005 have been prepared on the basis as if the current group structure had been in existence throughout the periods or since their date of incorporation where this is a shorter period. The consolidated balance sheets of the Group as at 31st December, 2004 and 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.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10th February, 2006.

The Group's financial statements are presented in United States Dollar ("US$"), which is the same functional currency of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued the following standards, amendments and interpretations that are not yet effective. The Group has considered the following standards, amendments and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste, electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The principle accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Turnover

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

Revenue recognition

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

Service revenue is recognised when the services are provided.

Rental income, including rentals invoiced in advance, from land and buildings 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 property, which is property held to earn rentals and/or for capital appreciation, is carried at cost less accumulated depreciation and accumulated impairment loss, if any. The cost of investment property is depreciated over its estimated useful life of 20 or 50 years using 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 continued 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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 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, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. 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 (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised as income immediately.

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 at 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.

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 effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Equity instruments

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

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 profit as reported in the 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

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 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 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 financial statements, the assets and liabilities of the Group's foreign operations are expressed in US$ using exchange rates prevailing on 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.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

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.

5. PROFIT BEFORE TAXATION

	2005	2004
	US$'000	US$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 6)	**24**	–
Other staff's retirement benefits scheme contributions	**127**	120
Other staff costs	**6,426**	5,415
	6,577	5,535
Less: Staff costs included in research and development costs	**(206)**	(167)
	6,371	5,368
Depreciation and amortisation of property, plant and equipment	**3,575**	2,967
Less: Depreciation and amortisation included in research and development cost	**(7)**	(6)
	3,568	2,961
Auditors' remuneration	**203**	200
Depreciation on investment properties	**59**	58
Loss on disposal of property, plant and equipment	**62**	111
Operating lease rentals in respect of		
– land and buildings	**775**	961
– land use rights	**9**	4
Research and development costs	**910**	855
and after crediting:		
Interest income	**414**	565
Property rental income before deduction of negligible outgoings	**716**	866

6. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS

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

	2005			2004		
	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	**3**	**–**	**3**	–	–	–
Mr. Tong Ching-Hsi	**3**	**–**	**3**	–	–	–
Mr. Liao Kuo-Ming	**3**	**–**	**3**	–	–	–
Non-executive directors						
Mr. Lai I-Jen	**3**	**–**	**3**	–	–	–
Ms. Wu Shu-Ping	**3**	**–**	**3**	–	–	–
Independent non-executive directors						
Ms. Chiang Hsiang-Tsai	**3**	**–**	**3**	–	–	–
Mr. Chou Chih-Ming	**3**	**–**	**3**	–	–	–
Mr. Lai Chung-Hsiung	**3**	**–**	**3**	–	–	–
	24	**–**	**24**	–	–	–

The five highest paid individuals are as follows:

	2005	2004
	US$'000	US$'000
Employees		
– basic salaries and allowances	**70**	60
– retirement benefits scheme contributions	**2**	1
	72	61

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 or as compensation for loss of office. None of the directors has waived any emoluments for the year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

7. TAXATION

	2005 US$'000	2004 US$'000
The (charge) credit comprises:		
PRC income tax calculated at the applicable income tax rate on the estimated assessable profit for the year	**(1,021)**	(266)
Deferred taxation	**37**	645
	(984)	379

The PRC subsidiary is entitled to 50% relief from PRC income tax pursuant to relevant PRC laws and regulations as over 90% of its sales were exported outside PRC.

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

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

	2005		2004	
	US$'000	**%**	*US$'000*	%
Profit before taxation	**21,014**		10,814	
Tax at the applicable income tax rate	**(6,935)**	**(33.0)**	(3,569)	(33.0)
Tax effect of expenses not deductible for tax purposes	**(116)**	**(0.6)**	(932)	(8.6)
Tax effect of income not taxable for tax purposes	**852**	**4.1**	–	–
Tax effect of deemed deductions in the PRC	**3,828**	**18.2**	4,119	38.1
Effect of tax exemption granted to the PRC subsidiary	**1,350**	**6.4**	152	1.4
Others	**37**	**0.2**	609	5.6
Tax effect and effective tax rate for the year	**(984)**	**(4.7)**	379	3.5

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

8. DIVIDENDS

	2005	2004
	US$'000	US$'000
Dividend – US8.61 cents (2004: nil) per share*	**4,522**	–
Proposed special dividend** – US0.60 cents (2004: nil) per share	**5,001**	–
	9,523	–

* Based on 52,500,000 shares issued by the Company as at 31 December 2005.

** Pursuant to the director meeting on 13th April 2006, the directors proposed a special interim dividend for 2006 of HK$0.047 (approximately US0.60 cents) per share based on 830,000,000 shares issued by the Company as at 13th April 2006 and it is subject to the approval by the Company's coming annual general meeting.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the consolidated profit for the year attributable to equity holders of the Company and on the 640,000,000 shares (2004: 640,000,000 shares) in issue during the year on the assumption that the Group Reorganisation has been effective on 1st January, 2004.

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, 2005

10. INVESTMENT PROPERTIES

	2005	2004
	US$'000	US$'000
COST		
At 1st January	**1,298**	1,294
Currency realignment	**32**	4
At 31st December	**1,330**	1,298
DEPRECIATION		
At 1st January	**424**	366
Currency realignment	**12**	–
Provided for the year	**59**	58
At 31st December	**495**	424
CARRYING VALUE		
At 31st December	**835**	874
The carrying value of the Group's property interests under medium-term are situated in:		
– Hong Kong	**68**	72
– the PRC	**767**	802
	835	874

The fair value of the Group's investment properties at the balance sheet date was US$1,229,500 (2004: US$1,204,000). The fair value has been arrived at based on a valuation as at 30th November, 2005 carried out by CB Richard Ellis Limited ("CBR"), independent valuers not connected with the Group. The valuation, which conforms with Hong Kong Institute of Surveyors Valuation Standards on Properties, was determined by reference to recent market prices for similar properties. CBR considers that the valuation of the Group's investment properties as at 31st December, 2005 approximates their value at 30th November, 2005.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Plant and machinery	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1st January, 2004	3,833	2,728	477	435	20,832	28,305
Currency realignment	11	–	–	–	–	11
Additions	150	2,701	329	284	7,409	10,873
Disposals	–	(490)	–	–	(1,666)	(2,156)
At 31st December, 2004	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
DEPRECIATION AND AMORTISATION						
At 1st January, 2004	1,093	1,563	178	268	6,374	9,476
Currency realignment	1	–	–	–	–	1
Provided for the year	171	575	120	75	2,026	2,967
Eliminated on disposals	–	(303)	–	–	(92)	(395)
At 31st December, 2004	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
CARRYING VALUES						
At 31st December, 2005	2,612	2,811	691	307	17,650	24,071
At 31st December, 2004	2,729	3,104	508	376	18,267	24,984

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	2005 US$'000	2004 US$'000
The carrying amounts of the Group's property interests comprises:		
Properties held under medium-term leases		
– land and buildings in Hong Kong	**158**	166
– buildings in the PRC	**2,454**	2,563
	2,612	2,729

12. LAND USE RIGHTS

	2005 US$'000	2004 US$'000
CARRYING VALUE		
At 1st January	**192**	184
Currency realignment	**3**	12
Additions during the year	**52**	–
Charged to income statement during the year	**(9)**	(4)
At 31st December	**238**	192

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

13. 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, 2004	345
Credit to income statement for the year	645
At 31st December, 2004	990
Currency realignment	26
Credit to income statement for the year	37
At 31st December, 2005	1,053

14. INVENTORIES

	2005 US$'000	2004 US$'000
Raw materials	**1,483**	2,896
Work in progress	**109**	215
Finished goods	**273**	537
	1,865	3,648

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

15. OTHER FINANCIAL ASSETS

Trade and other receivable

	2005 US$'000	2004 US$'000
Trade receivables		
– related companies in which certain directors of the Company have beneficial interests	**782**	847
– others	**17,335**	27,132
	18,117	27,979
Advance to a customer	**–**	2,033
Other receivables	**1,000**	1,082
	19,117	31,094

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.

	2005 US$'000	2004 US$'000
Age		
0 to 60 days	**13,338**	11,767
61 to 90 days	**3,499**	2,591
91 to 180 days	**2,216**	5,161
181 to 365 days	**131**	6,924
1 – 2 years	**22**	1,376
Over 2 years	**270**	1,556
	19,476	29,375
Less: Allowance for bad and doubtful debts	**(1,359)**	(1,396)
	18,117	27,979

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

15. OTHER FINANCIAL ASSETS (continued)

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 3.7% (2004: 3.5%) per annum. The directors consider that the fair value of the bank deposits at 31st December, 2005 approximates to the corresponding carrying amount.

16. AMOUNTS DUE FROM RELATED COMPANIES/SHAREHOLDERS

Certain substantial shareholders of the Company, Ability Enterprises (BVI) Co. Ltd. ("Ability Enterprise") and Asia Promotion Optical International Ltd. ("Asia Promotion") have beneficial interests in these related companies.

At 31st December, 2005, the amounts due from related companies are interest-free. At 31st December, 2004, included in the amounts due from related companies were balances of US$7,029,000 and US$1,122,000 due from Ever Pine International Limited and Hong Kong Bell Shin-Ei Tech Company Limited (formerly as Hong Kong Shin-Ei Yorkey Limited) which carried interest at 3% per annum and 5% per annum respectively. The remaining balance was interest free.

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

The directors consider the carrying amount of amounts due from related companies and shareholders approximates its fair value. The amounts are of non-trade nature, unsecured and are repayable within one year.

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Liquidity risk

Certain bank balances and cash of US$3,091,690 at 31st December, 2005 (2004:US$1,254,482) was denominated in Renminbi ("RMB") which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subjected to exchange restrictions imposed by the Government of the PRC.

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 consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to financial assets.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the 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.

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.

18. TRADE AND OTHER PAYABLES

	2005	2004
	US$'000	US$'000
Trade payables		
– related companies in which certain directors of the Company have beneficial interests	**21**	670
– others	**6,387**	7,768
	6,408	8,438
Balance of consideration payable for purchase of property, plant and equipment	**437**	1,994
Payroll and welfare payables	**846**	786
Other payables	**1,965**	1,901
	9,656	13,119
Age		
0 to 60 days	**5,404**	6,073
61 to 90 days	**715**	1,333
91 to 180 days	**289**	1,027
181 to 360 days	**–**	2
Over 1 year	**–**	3
	6,408	8,438

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, 2005

19. SHARE CAPITAL

	Authorised		Issued and fully paid	
	'000	HK$	'000	HK$
Ordinary shares of HK$0.01 each				
– on incorporation	50,000	500,000	–	–
– issued pursuant to Group Reorganisation	–	–	100	1,000
– at 31st December, 2004	50,000	500,000	100	1,000
– increase in authorised share capital	950,000	9,500,000	–	–
– issued pursuant to Group Reorganisation	–	–	52,400	524,000
– at 31st December, 2005	1,000,000	10,000,000	52,500	525,000
Shown in the Group's consolidated balance sheet				
– at 31st December, 2005				**US$67,000**
– at 31st December, 2004				**–**

The Company was incorporated on 13th October, 2004 with an authorised share capital of HK$500,000 of HK$0.01 each. Pursuant to shareholders' resolutions of the Company on 16th November, 2005, the authorised share capital of the Company was increased from HK$500,000 to HK$10,000,000 by the creation of an additional 950,000,000 ordinary shares of HK$0.01 each. On the same date, 23,580,000 shares and 28,820,000 shares were allotted to Ability Enterprise and Asia Promotion in consideration for the acquisition of the entire issued share capital of and the benefits of the relevant shareholders' loan to Yorkey Optical Technology Limited ("Yorkey Technology") by the Company.

The share capital of the Group as at 1st January, 2004 and 31st December, 2004 represents the aggregate issued share capital of Bioamazing Services Limited ("Bioamazing") and Click Away Services Limited ("Click Away").

20. MAJOR NON-CASH TRANSACTIONS

In November, 2005, pursuant to the written resolution of directors' meeting, an aggregate amount of US$19,367,000 was capitalised by the issuance of one share of US$1 each of Yorkey Technology.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

21. OPERATING LEASE COMMITMENTS

The Group as leasee

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

	2005	2004
	US$'000	US$'000
Within one year	754	683
In the second to fifth year inclusive	550	–
	1,304	683

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:

	2005	2004
	US$'000	US$'000
Within one year	547	9
In the second to fifth year inclusive	541	–
	1,088	9

22. CAPITAL COMMITMENTS

	2005	2004
	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	42	229

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

23. RETIREMENT BENEFITS 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	**2005 US$'000**	2004 US$'000
Sales of goods	**1,906**	4,416
Purchase of raw materials	**1,524**	2,899
Interest income	**11**	490
Property rental income	**457**	595
Agency handling income	**222**	319
Management fee paid	**1,129**	1,245

The Company's directors represented the Group's key management and their emoluments for the year are set out in note 6.

25. POST BALANCE SHEET EVENTS

The following events took place subsequent to 31st December, 2005:

(a) 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$63,680,000 respectively on the same date.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

25. POST BALANCE SHEET EVENTS (continued)

(c) On 18th January, 2006, the Company has adopted a share option scheme (the "Share Option Scheme") pursuant to a written shareholders' resolution of the Company. The Directors were authorised to grant options to subscribe for shares of the Company (the "Shares") thereunder and to allot and issue Shares pursuant thereto and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme.

(d) On 9th February, 2006, 200,000,000 ordinary shares of HK$0.01 each of the Company were issued at HK$2.2 by way of placing and public offer.

(e) The Company's shares were listed on the Main Board of the Stock Exchange on 10th February, 2006.

(f) 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

26. SUBSIDIARIES

Details of the Company's subsidiaries, all of which are wholly-owned by the Company, at 31st December, 2005 are as follows:

Name of subsidiary	Country of incorporation/ establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
Yorkey Technology	Samoa/PRC	US$550,001	Investment holding and trading of plastic and metallic parts and components of optical and opto-electronic products
Bioamazing	British Virgin Islands/PRC	US$1	Provision of research technical support services
Click Away	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 owned foreign enterprise 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**
	US$'000	US$'000	US$'000	**US$'000**
RESULTS				
Turnover	41,311	56,285	66,855	**78,871**
Profit before taxation	6,886	10,737	10,814	**21,014**
Taxation	(422)	(653)	379	**(984)**
Profit for the year attributable to equity holders of the Company	6,464	10,084	11,193	**20,030**

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

The results and summary of assets and liabilities for 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.