



**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)*

**2010**  
Annual Report



\* For identification purpose only





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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

Codan Trust Company (Cayman) Limited  
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

## Principal Bankers

HSBC Bank (Taiwan) Limited  
Bank Sinopac  
Ta Chong Bank Ltd.  
China Construction Bank  
China Merchant Bank

## Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 609  
Grand Cayman KY1-1107  
Cayman Islands

## 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 report of Yorkey Optical International (Cayman) Ltd (the "Company") and its subsidiaries (collectively, the "Group") for the year ended December 31, 2010.*

### Annual Results

I am also pleased to report to our shareholders that the Group recorded a turnover of approximately US\$81,010,000 representing a decrease of 7.7% as compared with that of 2009. The profit attributable to shareholders was approximately US\$5,857,000.

### Dividends

The board of directors of the Company ("the Board") recommended a final dividend of HK\$0.03 and special dividend of HK\$0.025, totally HK\$0.055 (approximately US0.708 cents) per share. Including the interim dividend of HK\$0.03 (approximately US0.385 cents) per share paid to shareholders on 8 November 2010, total dividend paid to the shareholders in respect of the year ended 31st December 2010 will be HK\$70,361,000 (approximately US\$9,050,000), bringing a dividend payout ratio over 100%.

### Business Review and Outlook

In 2010, despite that the global economy was gradually recovering from the bottom, the Group continued to adhere to its own business development and solid core competitiveness, and enhanced the level of automation in face of the challenges in the operating environment including soaring prices of raw materials and rising labour costs. The Group endeavoured to produce quality and low-cost products by offering one-stop services as well as strengthened its marketing strategies for market expansion. Accordingly, the Group has been recognized by many internationally renowned customers and maintained long-term partnership with them. The Group's strategies to consolidate its business strengths were also evidenced by the substantial growth in the results for the second half of the year over that in the first half of the year and the noticeable increase in various operating indicators.

Looking into 2011, the management of the Group remain confident about the growth of its business. The Group would have to leverage on its own core strengths and strong response ability to expand its business and achieve better performance. Consumer electronic products have strong growth potentials in the emerging markets. In addition, consumers are willing to invest more in purchasing

## Chairman's Statement



high-end products as their demand for high-quality video cameras increases and high-end electronic products continue to penetrate into the market. Accordingly, regardless of emerging markets or developed markets, demand for consumer electronic products including DSCs and mobile phones continue to show an upward trend. In addition, brand customers will accelerate the expansion of the contracting business in order to enhance the competitive strengths of products. Moreover, in light of the aging population and increasing health awareness, demand for medical equipment will also continue to increase. All these are favourable factors for the Group's future development. The management of the Group remain confident about the future growth of its business.

Besides, R&D and innovation are crucial elements to the survival of an enterprise. The Group will continue to allocate considerable resources into R&D activities in pursuit of excellence. The Group will endeavour to expand the market and customer base to generate better returns to our shareholders.

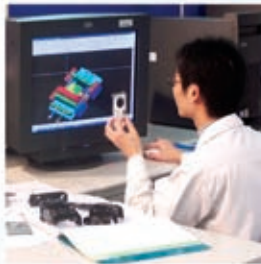
### Acknowledgement

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*

# Diversified Quality Products



**YORKEY OPTICAL**  
INTERNATIONAL (CAYMAN) LTD.

# Management Discussion and Analysis

## Operational and Financial Review

The Group 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), computer peripherals, handsets, traditional film cameras, and others, and subsequently related accessories as well as manufacture, painting and sale of molds and cases.

## Turnover

There was a decline in the Group's turnover for the year that was approximately US\$81,010,000 compared with that for the previous year (2009: US\$87,760,000).

The Group's revenue was mainly derived from the sales of components for DSCs and the percentage of its contribution accounted for 67%. Components for medical equipment were well received by customers and recorded over 100% growth in sales compared with that for the previous year and accounted for approximately 10% of revenue contribution.

In 2010, despite that the global economy was gradually recovering from the bottom, the Group would have to leverage on its own core strengths and strong response ability to develop and research the new products with high additional value in face of the challenges in the operating environment including soaring prices of raw materials, labour shortage and rising labour costs with a view to expanding its business and achieving better performance.

## Gross Profit

The Group's gross profit for the year was approximately US\$20,832,000 (2009: US\$23,042,000) and the gross profit margin was approximately 25.7% (2009: 26.3%). The decrease in the gross profit margin was caused by rising wages and labour costs in Mainland China. However, as the Group was committed to high-end product development accommodated by enhanced technique and R&D capabilities, continuously supplying customers with high quality components and sales services, the gross profit margin can still be maintained at a high level.

## Other income

The other income of the Group, contributed mainly by the bank interest income and exchange gain, for the year was approximately US\$1,661,000, representing an increase of approximately 3.7% as compared with approximately US\$1,602,000 in 2009.

## Net Profit

The Group's net profit for the year ended 31 December 2010 was approximately US\$5,857,000, representing a decrease of approximately 33.7% compared with US\$8,829,000 in 2009.

## Liquidity and Financial Resources

As at 31 December 2010, the Group had current assets of approximately US\$152,582,000 (2009: US\$160,270,000) while current liabilities of approximately US\$20,838,000 (2009: US\$25,551,000). The current ratio of the Group was approximately 732% (2009: 627%).



# Management Discussion and Analysis

The Group finances its operation with internally generated resources. As at 31 December 2010, the Group had cash at bank and on hand of approximately US\$117,818,000 (2009: US\$130,963,000), and zero bank borrowings.

Net cash generated from operating activities for the year was approximately US\$8,036,000.

Net cash outflow from investing activities for the year was approximately US\$25,481,000, which comprised capital expenditure arising from enhancement of production facilities in various divisions of the Group of approximately US\$8,230,000, bank deposits with original maturity of more than three months of approximately US\$15,171,000, available-for-sale investments of US\$3,000,000 and other investment activities of approximately US\$920,000.

Net cash outflow used in financing activities for the year was approximately US\$11,504,000, representing dividend paid during the year.

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, Hong Kong dollars or Japanese Yen while purchases were also transacted mainly in US dollars, Japanese Yen, Renminbi, and Hong Kong dollars. 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 31 December 2010, the Group had no significant contingent liabilities.

## Capital Commitment

As at 31 December 2010, the capital commitment of Group was US\$172,000 (2009: US\$171,000).

## Employment, Training and Development

As at 31 December 2010, the Group had a total of 3,221 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 and retain quality personnel and provide incentives for the staff to enhance performance.

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

Over the past year, in spite of the constraints posed by various challenges in the operating environment on its results, the Group continued to adhere to its own business development and solid core competitiveness, and enhanced the level of automation. The Group endeavoured to produce quality and low-cost products by offering one-stop services as well as strengthened its marketing strategies for market expansion. The Group's strategies to consolidate its business strengths were also evidenced by the substantial growth in the results for the second half of the year over that in the first half of the year and the noticeable increase in various operating indicators.

Looking into 2011, various uncertainties will remain in the operating environment. In face of these severe challenges, the Group will leverage on its own core strengths and strong response ability to expand its business and achieve better performance. According to the findings of the market research institute, consumers are willing to invest more in purchasing high-end products as their demand for high-quality video cameras increases. Regardless of emerging markets or developed markets, demand for consumer electronic products including DSCs and mobile phones continue to show an upward trend. In addition, brand customers will accelerate the expansion of the contracting business in order to enhance the competitive strengths of products. Moreover, in light of the aging population and increasing health awareness, demand for medical equipment will also continue to increase. All these are favourable factors for the Group's future development. The management of the Group remain confident about the future growth of its business.

We are committed to adhere to the principle of bringing good investment returns to our investors and we will continue to accomplish it.

## FINAL DIVIDEND

The Directors proposed a final dividend of HK\$0.03 per share to shareholders whose names appear on the register of members of the Company on 3 June 2011. The final dividend will be paid approximately in the end of June 2011.

## SPECIAL DIVIDEND

Being determined to make better return to the shareholders, the Directors further proposed to declare and distribute to the shareholders a special dividend of HK\$0.025 per share. It is expected that the ex-dividend date will be in the mid-August 2011 and the special dividend will be paid approximately in the mid-September 2011. Further announcement will be made by the Company regarding book closure timing information as and when appropriate.

Including the interim dividend of HK\$0.03 per share paid to the shareholders on 8 November 2010, total dividend paid to the shareholders in respect of the year ended 31 December 2010 will be HK\$0.085 per share, bringing a dividend payout ratio of over 100%.

# Profile of Directors and Senior Management

## Executive Directors

**Mr. CHENG Wen-Tao (鄭文濤)**, aged 75, 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 74, 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 62, is a non-executive Director. He has over 30 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 48, is a non-executive Director. Ms. Wu is currently a director of Asia Optical Co., Inc. and holds directorship in 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 40, 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 chief (主任) of the accounting office in Feng Chia University in Taiwan.

**Mr. CHOU Chih-Ming (周智明)**, aged 52, 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 67, 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 wholesaling 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. WANG Zhi-Shang (王志尚)**, aged 53, head of metal stamping department of the Group. Prior to joining the Group, Mr. Wang worked in Panasonic Taiwan Co., Ltd. and Foxconn Technology Co., Ltd. and has more than 20 years of experience in the metal stamping industry. Mr. Wang joined the Group in November 2008.

**Mr. CHAN Sun-Ko (詹孫科)**, aged 42, 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.

**Mr. CHEN Yao-Tang (陳耀堂)**, aged 47, is the department head of the production technology department and mould technology department of the Group. Before Mr. Chen joined the Group, he worked in Ricoh Company Limited. Mr. Chen has over 20 years of experience in the plastic and metallic mould industry. He is responsible for overseeing the production technique and ensuring the product quality for the Group. He joined the Group in June 2005.

**Ms. TAN Ya-Juan (譚亞娟)**, aged 35, is the department head of the manager of cases and bags department of the Group. Ms Tan has over 14 years of experience in the field of manufacturing and assembling of cases and bags, and is responsible to overseeing the production process, quality of products of the cases and bags department. Ms. Tan joined the Group in December 1995.

**Mr. HUANG Cheng-I (黃正一)**, aged 44, is the head of sales and marketing department of the Group. Mr. Huang has over 9 years of sales and marketing experience. He is responsible for the administration and supervision of overall sales and marketing activities of the Group. He joined the Group in July 2000.



## Profile of Directors and Senior Management

**Mr. NG Chi Ching (吳子正)**, aged 40, is the 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 2010.

### Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 29 to the financial statements.

### Results

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 30.

### Dividends

During the year, the Company paid an interim dividend of HK\$0.03 (approximately US0.385 cents) per share amounting to HK\$24,833,000 (approximately US\$3,190,000) in respect of the six months ended 30th June 2010 on 8 November 2010.

The Board has resolved to recommend a final dividend of HK\$0.03 and special dividend HK\$0.025, totally HK\$0.055 (approximately US0.708 cents) per share, amounting to HK\$45,528,000 (approximately US\$5,860,000) in respect of the year ended 31st December 2010. The final dividend is expected to be paid around the end of June 2011 to those shareholders whose name appear on the register of members of the Company on 3 June, 2011. For the special dividend of HK\$0.025 per share, it is expected that the ex-dividend date will be in the mid-August 2011 and that it will be paid approximately in the mid-September 2011.

### Share Capital

Details of the movements in the issued share capital of the Company during the year are set out in note 23 to the consolidated 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 32.

As at 31st December 2010, 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\$1,700,000.

### Investment Properties

Details of the investment properties of the Group during the year are set out in note 13 to the consolidated 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 14 to the consolidated 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 13.9% and 59.8% 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 18.9% and 32.8% 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.

## Report of the Directors

### Directors and directors' service contracts

The directors of the Company ("Directors") during the year were:

#### Executive directors:

Mr. Liao Kuo-Ming (Chairman)  
Mr. Cheng Wen-Tao (CEO)

#### 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 9 to page 10 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 9 to the consolidated financial statements on page 55 of this annual report.

# Report of the Directors

## Directors and Chief Executive's Interests in Shares

As at 31st December 2010, 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	186,833,000 (Note 1)	22.57%
	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	113,000,000 (Note 2)	13.65%

*Note 1:* Mr. Cheng Wen-Tao ("Mr. Cheng") is taken to be interested in an aggregate of 186,833,000 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 113,000,000 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 2010, 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.



## Report of the Directors

### 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 2010, 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 or 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.

At no time during the period was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares, or debentures of, the Company or its associated corporation.

### **Directors' Interest in Contracts of Significance**

Save as disclosed in note 28 to the consolidated 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.

# Report of the Directors

## Substantial Shareholders

As at 31st December 2010, 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	144,473,000	17.45%
Ability Enterprise Co., Ltd.	Interest of a controlled corporation	144,473,000 (Note 1)	17.45%
Asia Promotion Optical International Ltd.	Beneficial owner	186,833,000	22.57%
Fortune Lands International Ltd.	Founder of discretionary trust	113,000,000 (Note 2)	13.65%
Fortune Lands International Ltd.	Interest of a party to be disclosed under sections 317(1)(b) and 318 of the SFO	186,833,000 (Note 2)	22.57%
Templeton Asset Management Ltd.	Investment manager	50,140,000	6.06%
Mr. Chen Yao-Tang	Interest of a controlled corporation	299,833,000 (Note 3)	36.22%
Ms. Huang Ching-Hui	Interest of a spouse	299,833,000 (Note 4)	36.22%
Ms. Ho Shu-Chun	Interest of a spouse	299,833,000 (Note 5)	36.22%

## Report of the Directors

*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 144,473,000 shares in the Company held by Ability Enterprise BVI.

*Note 2:* Fortune Lands is the founder of The Yorkey Employee’s Trust and is the registered owner of 113,000,000 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 186,833,000 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 3:* Mr. Chen Yao-Tang, being the sole shareholder of Fortune Lands, is taken to be interested in an aggregate of 113,000,000 shares in the Company held by Fortune Lands.

Mr. Chen is also deemed to be interested in the 186,833,000 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. Chen, 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:* Ms. Huang Ching-Hui, the spouse of Mr. Cheng, is taken to be interested in an aggregate of 299,833,000 shares in which Mr. Cheng is interested in.

*Note 5:* Ms. Ho Shu-Chun, the spouse of Mr. Chen, is taken to be interested in an aggregate of 299,833,000 shares in which Mr. Chen is interested in.

Save as disclosed above, as at 31st December 2010, the Company had not been notified of any long position being held by any persons, other than a director or chief executive of the Company, 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.

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

As at 31st December 2010, 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.

# Report of the Directors

## 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 2010.

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.

## Report of the Directors

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 2010, 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. The term was extended to 31st December 2010 according to the supplemental agreement entered into by both parties on 8th April 2008.

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 2010, sales of camera cases made with synthetic materials and related products to APO Inc by the Group amounted to US\$0.

#### 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. The term was extended to 31st December 2010 according to the supplemental agreement entered into by both parties on 8th April 2008.

## 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 2010, purchase of digital cameras' integrated circuits and circuit boards from Ever Pine by the Group amounted to approximately US\$88,000.

### **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 5,028.19 sq.m. situated at Junction of Erhuan Central Road, No. 2 Xiaobian Industrial District, Changan Town, Dongguan City, Guangdong Province, the PRC as factory premises for the operation of the business of Dongguan 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 term was extended to 31st December 2010 according to the supplemental agreement entered into by both parties on 8th April 2008.

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 2010, the rental income received from Dongguan Guang Tong amounted to approximately US\$276,000.

### **4. 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 term was extended to 31st December 2010 according to the supplemental agreement entered into by both parties on 8th April 2008.

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.

## Report of the Directors

For the year ended 31st December 2010, 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\$145,000.

### **5. Purchase of materials and related parts for producing camera casings and cases by YOT 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 term was extended to 31st December 2010 according to the supplemental agreement entered into by both parties on 8th April 2008.

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 2010, purchase of materials and related parts for producing camera casings and case from APO Inc. by the Group amounted to approximately US\$392,000.

### **6. 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 monthly management fee 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. The term was extended to 31st December 2010 according to the supplemental agreement entered into by both parties on 8th April 2008.

## Report of the Directors

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 2010, the management fees paid by the Group to APO Inc. amounted to approximately US\$1,416,000.

### **7. 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 term was extended to 31st December 2010

according to the supplemental agreement entered into by both parties on 8th April 2008.

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 2010, 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\$244,000.

### **8. 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 term was extended to 31st December 2010 according to the supplemental agreement entered into by both parties on 8th April 2008.



## Report of the Directors

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 2010, the sales of leather cases for office equipment parts to Dongguan Guang Tong by the Group amounted to approximately US\$69,000.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the auditor of the Company to perform certain work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditor has provided a letter to the board of directors of the Company and confirmed that for the year ended 31st December 2010:

- a. nothing has come to our attention that causes them to believe that the Disclosed Continuing Connected Transactions have not been approved by the Company's board of directors.
- b. for transactions involving the provision of goods or services by the Group, nothing has come to our attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.
- c. nothing has come to our attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.
- d. with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to our attention that causes them to believe that the Disclosed Continuing Connected Transactions have exceeded the maximum aggregate annual value disclosed in the previous announcement dated 8th April 2008 made by the Company in respect of each of the Disclosed Continuing Connected Transactions.

### 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 9 to the consolidated financial statements.

## Report of the Directors

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

During the year ended 31st December 2010, neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the listed securities of the Company.

### 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*

10th March, 2011

# 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 2010.

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

For the year ended 31st December 2010, the Board of the Company comprised 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 was the chief executive officer of the Company. Mr. Liao Kuo Ming was the Chairman of the Company.

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, four board meetings were held and the attendance of each director is set out below:

Name of director	Number of Meetings attended
Cheng Wen-Tao	4/4
Liao Kuo-Ming	4/4
Lai I-Jen	4/4
Wu Shu-Ping	4/4
Chiang Hsiang-Tsai	4/4
Chou Chih-Ming	4/4
Lai Chung-Hsiung	4/4

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.

# Corporate Governance Report

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 9 to the accounts.

# Corporate Governance Report

## Auditors' Remuneration

During the year ended 31st December 2010, the fee paid/payable to auditor in respect of audit services provided by the auditor to the Group was approximately US\$194,000 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.

The audit committee comprises three independent non-executive Directors, namely, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Lai Chung-Hsiung. 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, 2010 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.

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.

## Independent Auditor's Report



### 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 30 to 71, which comprise the consolidated statement of financial position as at 31st December, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 about 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 of the consolidated financial statements that give a true and fair view 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 affairs of the Group as at 31st December, 2010, and of the Group's 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

10 March 2011

# Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2010

		2010	2009
	<i>Notes</i>	US\$'000	US\$'000
Turnover	7	<b>81,010</b>	87,760
Cost of goods sold		<b>(60,178)</b>	(64,718)
Gross profit		<b>20,832</b>	23,042
Other income		<b>1,661</b>	1,602
Distribution costs		<b>(1,193)</b>	(1,539)
Administrative expenses		<b>(15,189)</b>	(13,974)
Profit before taxation	8	<b>6,111</b>	9,131
Taxation	10	<b>(254)</b>	(302)
Profit for the year		<b>5,857</b>	8,829
Other comprehensive income			
– exchange differences arising from translation of financial statements of foreign operations		<b>1,149</b>	218
– fair value gain on available-for-sale investments		<b>42</b>	–
Other comprehensive income for the year		<b>1,191</b>	218
Total comprehensive income for the year		<b>7,048</b>	9,047
Earnings per share			
– Basic	12	<b>US0.71 cents</b>	US1.07 cents



# Consolidated Statement of Financial Position

At 31st December, 2010

	Notes	2010 US\$'000	2009 US\$'000
<b>Non-current assets</b>			
Investment properties	13	614	671
Property, plant and equipment	14	30,767	32,604
Land use rights	15	253	251
Deposits paid for acquisition of property, plant and equipment		411	–
		<b>32,045</b>	33,526
<b>Current assets</b>			
Inventories	17	9,929	7,429
Trade and other receivables	18	21,614	21,855
Amounts due from related companies	19	179	23
Available-for-sale investments	20	3,042	–
Bank balances and cash	21	117,818	130,963
		<b>152,582</b>	160,270
<b>Current liabilities</b>			
Trade and other payables	22	20,312	25,276
Taxation		526	275
		<b>20,838</b>	25,551
<b>Net current assets</b>		<b>131,744</b>	134,719
<b>Net assets</b>		<b>163,789</b>	168,245
<b>Capital and reserves</b>			
Share capital	23	1,066	1,066
Reserves		162,723	167,179
<b>Total equity</b>		<b>163,789</b>	168,245

The consolidated financial statements on pages 30 to 71 were approved and authorised for issue by the Board of Directors on 10th March, 2011 and are signed on its behalf by:

**LIAO KUO-MING**  
CHAIRMAN

**CHENG WEN-TAO**  
EXECUTIVE DIRECTOR

# Consolidated Statement of Changes in Equity

For the year ended 31st December, 2010

	Attributable to owners 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	Investment revaluation reserve US\$'000	Retained profits US\$'000	Total US\$'000
At 1st January, 2009	1,066	63,800	19,350	7,879	2,276	-	82,662	177,033
Exchange differences arising from translation of financial statements of foreign operations	-	-	-	218	-	-	-	218
Profit for the year	-	-	-	-	-	-	8,829	8,829
Total comprehensive income for the year	-	-	-	218	-	-	8,829	9,047
Dividend recognised as distribution	-	-	-	-	-	-	(17,835)	(17,835)
At 31st December, 2009	1,066	63,800	19,350	8,097	2,276	-	73,656	168,245
Exchange differences arising from translation of financial statements of foreign operations	-	-	-	1,149	-	-	-	1,149
Fair value gain on available-for-sale investments	-	-	-	-	-	42	-	42
Profit for the year	-	-	-	-	-	-	5,857	5,857
Total comprehensive income for the year	-	-	-	1,149	-	42	5,857	7,048
Dividend recognised as distribution	-	-	-	-	-	-	(11,504)	(11,504)
At 31st December, 2010	1,066	63,800	19,350	9,246	2,276	42	68,009	163,789

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 reorganisation in 2005.

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 by the PRC subsidiary to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

# Consolidated Statement of Cash Flows

For the year ended 31st December, 2010

	2010 US\$'000	2009 US\$'000
Operating activities		
Profit before taxation	6,111	9,131
Adjustments for:		
Interest income	(920)	(1,136)
Depreciation on investment properties	75	79
Depreciation on property, plant and equipment	5,869	5,378
Loss on disposal of property, plant and equipment	29	29
Amortisation of land use rights	6	6
Allowance for obsolete inventories	142	345
Impairment losses recognised on receivables	9	155
Reversal of allowance for bad and doubtful debts	(25)	–
Operating cash flows before movements in working capital	11,296	13,987
(Increase) decrease in inventories	(2,589)	1,109
Decrease in trade and other receivables	1,681	6,998
(Increase) decrease in amounts due from related companies	(155)	128
Decrease in trade and other payables	(2,185)	(4,711)
Cash from operations	8,048	17,511
PRC income tax paid	(12)	(4)
Net cash from operating activities	8,036	17,507
Investing activities		
Interest received	920	1,136
Increase in bank deposits with original maturity of more than three months	(15,171)	–
Purchase of property, plant and equipment	(7,819)	(2,133)
Purchase of available-for-sale investments	(3,000)	–
Deposits paid for acquisition of property, plant and equipment	(411)	–
Net cash used in investing activities	(25,481)	(997)
Cash used in financing activities		
Dividends paid	(11,504)	(17,835)
Net decrease in cash and cash equivalents	(28,949)	(1,325)
Cash and cash equivalents at 1st January	130,963	132,157
Effect of foreign exchange rate changes	633	131
Cash and cash equivalents at 31st December	102,647	130,963
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	102,647	130,963

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 1. GENERAL

The Company is incorporated in the Cayman Islands and registered as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 29. 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.

The consolidated financial statements are presented in United States dollars ("US\$"), which is the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations (hereinafter collectively referred to as "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (as revised in 2008)	Business combinations
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Eligible hedged items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners
HK – INT 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

### Amendments to HKAS 17 “Leases”

As part of the Improvements to HKFRSs issued in 2009, HKAS 17 “Leases” has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as land use rights in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1st January, 2010 based on information that existed at the inception of the leases. After reassessment, the directors of the Company concluded that no reclassification was necessary.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKAS 1 and HKAS 28 <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets <sup>3</sup>
HKFRS 9	Financial instruments <sup>4</sup>
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets <sup>5</sup>
HKAS 24 (as revised in 2009)	Related party disclosures <sup>6</sup>
HKAS 32 (Amendments)	Classification of rights issues <sup>7</sup>
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement <sup>6</sup>
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st July, 2010 or 1st January, 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after 1st July, 2010.

<sup>3</sup> Effective for annual periods beginning on or after 1st July, 2011.

<sup>4</sup> Effective for annual periods beginning on or after 1st January, 2013.

<sup>5</sup> Effective for annual periods beginning on or after 1st January, 2012.

<sup>6</sup> Effective for annual periods beginning on or after 1st January, 2011.

<sup>7</sup> Effective for annual periods beginning on or after 1st February, 2010.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

HKFRS 9 “Financial instruments” (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 “Financial instruments” (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group’s consolidated financial statements for financial year ending 31st December, 2013. The application of HKFRS 9 will affect the classification and measurement of the Group’s available-for-sale investments and might affect the classification and measurement of other financial assets. As at 31st December, 2010, no financial liability has been designated as at fair value through profit or loss. The application of HKFRS 9 will affect the measurement of such financial liability if designation is made in the future.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements of the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis 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 and the Hong Kong Companies Ordinance.

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 in full on consolidation.

### 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.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 on initial recognition.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives of 20 years or 50 years, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. 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 asset) is included in profit or loss in the period in which the item is derecognised.

### Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

For the leasehold land and buildings 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 over the lease term of 50 years, using the straight-line method.

The cost of buildings in 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.



# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment (continued)

Depreciation is recognised so as to write off the cost of other items of property, plant and equipment less their residual values 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%

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

### 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 in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The Group's financial assets are mainly classified into loans and receivables and available-for-sale financial assets.

### Financial assets

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### *Financial assets* (continued)

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, amounts due from related companies, and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

##### *Impairment of financial assets*

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been affected.

For an available-for-sale investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### *Financial assets* (continued)

##### *Impairment of financial assets* (continued)

For loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of loans and receivables is reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

#### *Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### *Financial liabilities and equity* (continued)

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

##### *Financial liabilities*

Financial liabilities including trade and other payables 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.

### **Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 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 activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

### Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the assets 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. A reversal of an impairment loss is recognised as income immediately.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those 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 other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) 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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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. US\$) at the rate of exchange prevailing at the end of the reporting period and their income and expenses are translated at the average exchange rates for the year, 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, recognised in other comprehensive income and accumulated in equity (the translation reserve).

From 1st January, 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

### Retirement benefits costs

Payments to defined contribution retirement benefits plans are charged as expenses when employees have rendered services entitling them to the contributions.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

### *The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing (continued)

#### *The Group as lessee*

Operating lease payments are recognised as expenses on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

#### *Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

### 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 the end of the reporting period, 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 during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options 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 options reserve will continue to be held in share options reserve.



# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The following is the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2010, the carrying amount of trade receivables is US\$19,487,000 (net of allowance for doubtful debts of US\$251,000) (2009: carrying amount of US\$21,556,000, net of allowance for doubtful debts of US\$266,000).

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to its owners.

The capital structure of the Group consists primarily of equity attributable to owners of the Company, comprising issued share capital and reserves, including retained profits.

At the end of the reporting period, no external debts are raised by the Group.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs of the Company. The Group's overall strategy remains unchanged from prior year.

## 6. FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade receivables, amounts due from related companies, bank balances, 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 6. FINANCIAL INSTRUMENTS (continued)

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

### Categories of financial instruments

	2010 US\$'000	2009 US\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	137,484	152,542
Available-for-sale investments	3,042	–
Financial liabilities		
Amortised cost	15,970	21,469

### Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful debts 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 continuously monitors 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 the end of the reporting period 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 bank balances 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 concentration of credit risk as 21% (2009: 23%) and 84% (2009: 70%) of the total trade receivables are due from the Group's largest customer and the five largest customers respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 6. FINANCIAL INSTRUMENTS (continued)

### Market risk

#### Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The Group has certain transactions denominated in foreign currencies, which expose the Group to foreign currency risk. Approximately 10% of the Group's sales are denominated in currencies other than the functional currency of the group entities making the sale whilst all costs are denominated in the group entities' functional currency. The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are disclosed in respective notes. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group is mainly exposed to currency of Hong Kong dollars and Japanese Yen. The following table details the Group's sensitivity to a 10% increase and decrease in United States dollars against Japanese Yen. Since Hong Kong dollars is pegged to United States dollars, management considers that the exchange rate fluctuation between Hong Kong dollars and United States dollars is not significant and therefore has not been included in the sensitivity analysis. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The sensitivity analysis includes trade and other receivables, trade and other payables and bank balances. A positive number indicates a decrease in profit for the year where United States dollars strengthens against Japanese Yen. If United States dollars weakens against Japanese Yen, there would be an equal and opposite impact on the profit.

	2010 US\$'000	2009 US\$'000
Japanese Yen	17	269

#### Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets, mainly bank balances at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for bank balances at the end of the reporting period. The analysis is prepared assuming the bank balances outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 6. FINANCIAL INSTRUMENTS (continued)

### Market risk (continued)

#### Interest rate risk (continued)

If interest rates had been 50 basis points (2009: 100 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2010 would increase/decrease by US\$589,000 (2009: increase/decrease by US\$1,309,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits.

#### Liquidity risk management

The directors of the Company has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities at the end of the reporting period. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Less than 3 months US\$'000	Over 3 months but not more than 6 months US\$'000	Over 6 months but not more than 1 year US\$'000	Total undiscounted cash flows US\$'000	Carrying amount US\$'000
At 31st December, 2010					
<b>Financial liabilities</b>					
Trade and other payables	12,715	3,081	174	15,970	15,970
At 31st December, 2009					
<b>Financial liabilities</b>					
Trade and other payables	17,031	4,339	99	21,469	21,469

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 6. FINANCIAL INSTRUMENTS (continued)

### Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions is determined with reference to quoted market bid prices.
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair value.

### *Fair value measurements recognised in the consolidated statement of financial position*

Financial instruments measured subsequent to initial recognition at fair value, are grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The available-for-sale investments of the Group as at 31 December 2010 is grouped in Level 2 fair value measurements.

There were no transfers between Level 1 and 2 in the current year.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 7. TURNOVER AND OPERATING SEGMENT

### Turnover

Turnover represents the fair value of the consideration received or receivable for goods sold by the Group to outside customers during the year.

### Operating segment

The chief executive officer, being the chief operating decision maker of the Group, regularly reviews revenue analysis of the components of optical and opto-electronic products and considers them as one single operating segment on an aggregate basis. However, other than revenue analysis, no operating results and other discrete financial information is available for the assessment of performance of the respective business divisions.

The chief executive officer reviews the profit for the year of the Group as a whole to make decisions about resource allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the executive directors. The operation of the Group constitutes one single operating segment under HKFRS 8 "Operating segments" and accordingly, no separate segment information is prepared.

### Other segment information

#### Geographical information

The Group's operations are located in PRC (country of domicile).

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Japan	43,118	47,021	–	–
PRC	34,829	38,009	32,045	33,526
Others	3,063	2,730	–	–
	81,010	87,760	32,045	33,526

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 7. TURNOVER AND OPERATING SEGMENT (continued)

### Other segment information (continued)

#### Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2010 US\$'000	2009 US\$'000
Customer A	11,262	*
Customer B	10,984	9,573
Customer C	10,224	17,914
Customer D	9,399	*
Customer E	*	15,833

\* The corresponding revenue does not contribute over 10% of the total sales of the Group in the respective year.

#### Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2010 US\$'000	2009 US\$'000
Components of optical and opto-electronic products		
– cameras and copiers	61,844	74,183
– others	19,166	13,577
	81,010	87,760

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 8. PROFIT BEFORE TAXATION

	2010 US\$'000	2009 US\$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration ( <i>note 9</i> )	108	108
Staff's retirement benefits scheme contributions	470	366
Other staff costs	15,301	13,038
	<b>15,879</b>	13,512
Less: Staff costs included in research and development costs	<b>(423)</b>	(260)
	<b>15,456</b>	13,252
Depreciation on property, plant and equipment	5,869	5,378
Less: Depreciation included in research and development costs	<b>(193)</b>	(204)
	<b>5,676</b>	5,174
(Reversal of allowance) allowance for bad and doubtful debts	<b>(16)</b>	155
Allowance for obsolete inventories included in cost of goods sold	142	345
Amortisation of land use rights	6	6
Auditor's remuneration	271	270
Depreciation on investment properties	75	79
Loss on disposal of property, plant and equipment	29	29
Operating lease rentals in respect of		
– motor vehicles	251	250
– plant and machinery	997	1,581
– rented premises	1,100	900
Research and development costs	2,026	1,285
and after crediting:		
Exchange gain, net	399	133
Interest income	920	1,136
Property rental income before deduction of negligible outgoings	291	296



# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 9. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS

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

	2010			2009		
	Fees US\$'000	Salaries and other benefits US\$'000	Total US\$'000	Fees US\$'000	Salaries and other benefits US\$'000	Total US\$'000
Executive directors						
Mr. Cheng Wen-Tao	16	6	22	16	–	16
Mr. Liao Kuo-Ming	16	–	16	16	–	16
Non-executive directors						
Mr. Lai I-Jen	16	–	16	16	–	16
Ms. Wu Shu-Ping	15	–	15	15	–	15
Independent non-executive directors						
Mr. Chiang Hsiang-Tsai	15	–	15	15	–	15
Mr. Chou Chih-Ming	15	–	15	15	–	15
Mr. Lai Chung-Hsiung	15	–	15	15	–	15
	<b>108</b>	<b>–</b>	<b>114</b>	108	–	108

The five individuals with the highest emoluments in the Group were as follows:

	2010 US\$'000	2009 US\$'000
Employees		
– basic salaries and allowances	159	167
– retirement benefits scheme contributions	2	2
	<b>161</b>	169

There is no performance related incentive payment to the five highest paid individuals. The emoluments of each of the five highest paid individuals is less than HK\$1,000,000 (equivalent to US\$129,000).

During the year, no emoluments were paid by the Group to the directors or the five highest paid individuals 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 during the year.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 10. TAXATION

	2010 US\$'000	2009 US\$'000
The tax (charge) credit comprises:		
PRC income tax calculated at the applicable income tax rate on the estimated assessable profit for the year	(242)	(275)
(Under)overprovision in prior years*	(12)	1,184
	(254)	909
Deferred taxation	–	(1,211)
	(254)	(302)

\* During the year ended 31st December, 2009, the local PRC tax authority in charge of taxation of a foreign enterprise of the Group, after an in-depth review of the Group's business activities in the PRC for the years 2002 to 2009, agreed that the presence of this foreign enterprise in the PRC during each of these years did not constitute a permanent establishment in the PRC. The PRC tax authority thus endorsed with an official circular that the relevant entity should not be liable to Enterprises Income Tax ("EIT") for the years from 2002 to 2009. In prior years, before this foreign enterprise could secure any official endorsement to rule out the exposure of permanent establishment, the management accrued EIT for those years 2002 to 2008. Included in the overprovision in prior periods above, an amount of US\$1,456,000 representing the relevant EIT provision for years 2002 to 2008, was then considered unnecessary during the year ended 31st December, 2009 and released to profit or loss. The remaining US\$272,000, representing the EIT underprovision for the year 2008, was considered necessary during the year ended 31st December, 2009 and charged to profit or loss.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries was unified at 25% effective from 1st January, 2008 onwards.

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

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 10. TAXATION (continued)

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

	2010 US\$'000	2009 US\$'000
Profit before taxation	6,111	9,131
Tax at the applicable income tax rate of 25% (2009: 25%)	(1,528)	(2,283)
Tax effect of expenses not deductible for tax purposes	(592)	(672)
Tax effect of income not taxable for tax purposes	335	249
Tax effect of tax exemption granted to certain subsidiaries	1,543	2,431
Tax effect of reversal of deferred tax assets recognised in prior years	–	(1,211)
(Under)overprovision in prior years	(12)	1,184
Tax charge for the year	(254)	(302)

## 11. DIVIDENDS

	2010 US\$'000	2009 US\$'000
Dividends recognised as distribution during the year		
– Interim dividend for 2010 of HK3.0 cents (equivalent to US0.385 cents) (2009: HK3.7 cents; equivalent to US0.477 cents) per share	3,190	3,948
– Final dividend for 2009 of HK3.8 cents (equivalent to US0.489 cents) (2009: final dividend for 2008 of HK13 cents; equivalent to US1.678 cents) per share	4,050	13,887
– Special dividend for 2009 of HK4.0 cents (equivalent to US0.515 cents) (2009: nil for 2008) per share	4,264	–
	11,504	17,835
Dividends proposed		
– Final dividend for 2010 of HK3.0 cents (equivalent to US0.386 cents) (2009: final dividend for 2009 of HK3.8 cents; equivalent to US0.489 cents) per share	3,195	4,050
– Special dividend for 2010 of HK2.5 cents (equivalent to US0.322 cents) (2009: special dividend for 2009 of HK4.0 cents; equivalent to US0.515 cents) per share	2,665	4,264
	5,860	8,314

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 11. DIVIDENDS (continued)

A final dividend of HK3.0 cents (2009: HK3.8 cents) per share and a special dividend of HK2.5 cents (2009: HK4.0 cents) per share have been proposed by the directors for the year and are subject to approval by the shareholders in the forthcoming annual general meeting. They are calculated on the basis of 827,778,000 shares (2009: 827,778,000 shares) in issue at the date of this report.

## 12. 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 owners of the Company of US\$5,857,000 (2009: US\$8,829,000) and on 827,778,000 shares (2009: 827,778,000 shares) in issue during the year.

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

## 13. INVESTMENT PROPERTIES

	2010 US\$'000	2009 US\$'000
<b>COST</b>		
At 1st January	1,564	1,555
Currency realignment	50	9
At 31st December	1,614	1,564
<b>DEPRECIATION</b>		
At 1st January	893	809
Currency realignment	32	5
Provided for the year	75	79
At 31st December	1,000	893
<b>CARRYING VALUE</b>		
At 31st December	614	671

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 13. INVESTMENT PROPERTIES (continued)

The carrying amount of the Group's investment properties comprises:

	2010 US\$'000	2009 US\$'000
Investment properties held under medium-term leases		
– leasehold land and buildings in Hong Kong	57	59
– buildings in the PRC	557	612
	<b>614</b>	671

The fair value of the Group's investment properties, including leasehold land portion, at the end of the reporting period was US\$1,052,000 (2009: US\$899,000). The fair value has been arrived at based on a valuation at the end of the reporting period, 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 14. 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, 2009	4,973	9,681	2,165	450	47,388	64,657
Currency realignment	29	57	13	3	280	382
Additions	-	487	101	-	4,937	5,525
Disposals	-	(105)	-	(30)	(56)	(191)
At 31st December, 2009	5,002	10,120	2,279	423	52,549	70,373
Currency realignment	165	343	79	15	1,797	2,399
Additions	1,227	824	36	-	2,398	4,485
Disposals	-	(115)	-	(1)	(1,711)	(1,827)
At 31st December, 2010	<b>6,394</b>	<b>11,172</b>	<b>2,394</b>	<b>437</b>	<b>55,033</b>	<b>75,430</b>
<b>DEPRECIATION</b>						
At 1st January, 2009	2,421	5,679	1,606	364	22,288	32,358
Currency realignment	14	34	10	3	134	195
Provided for the year	236	1,017	290	10	3,825	5,378
Eliminated on disposals	-	(95)	-	(27)	(40)	(162)
At 31st December, 2009	2,671	6,635	1,906	350	26,207	37,769
Currency realignment	97	252	70	12	996	1,427
Provided for the year	287	1,148	181	18	4,235	5,869
Eliminated on disposals	-	(91)	-	(1)	(310)	(402)
At 31st December, 2010	<b>3,055</b>	<b>7,944</b>	<b>2,157</b>	<b>379</b>	<b>31,128</b>	<b>44,663</b>
<b>CARRYING VALUES</b>						
At 31st December, 2010	<b>3,339</b>	<b>3,228</b>	<b>237</b>	<b>58</b>	<b>23,905</b>	<b>30,767</b>
At 31st December, 2009	2,331	3,485	373	73	26,342	32,604

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

	2010 US\$'000	2009 US\$'000
The carrying amount of the Group's property interests comprises:		
Properties held under medium-term leases		
– leasehold land and buildings in Hong Kong	131	137
– buildings in the PRC	3,208	2,194
	<b>3,339</b>	2,331

## 15. LAND USE RIGHTS

	2010 US\$'000	2009 US\$'000
<b>CARRYING VALUE</b>		
At 1st January	251	255
Currency realignment	8	2
Charged to profit or loss	(6)	(6)
At 31st December	<b>253</b>	251

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, 2010

## 16. DEFERRED TAXATION

The following is the deferred tax assets recognised by the Group and movements thereon during the current and prior years.

	Difference in depreciation	
	2010 US\$'000	2009 US\$'000
At 1st January	–	1,173
Currency realignment	–	38
Charged to profit or loss ( <i>Note</i> )	–	(1,211)
At 31st December	–	–

*Note:* During the year ended 31st December, 2009, the deferred tax assets relating to the difference in depreciation recognised in prior years was reversed.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements as the PRC subsidiary showed accumulated losses at 31st December, 2010.

## 17. INVENTORIES

	2010 US\$'000	2009 US\$'000
Raw materials	5,791	4,287
Work in progress	2,350	1,461
Finished goods	1,788	1,681
	9,929	7,429



# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 18. TRADE AND OTHER RECEIVABLES

	2010 US\$'000	2009 US\$'000
Trade receivables		
– related companies in which certain directors of the Company have beneficial interests	131	1,600
– others	19,607	20,222
	<b>19,738</b>	21,822
Less: Allowance for doubtful debts	(251)	(266)
	<b>19,487</b>	21,556
Proceeds receivable from disposal of property, plant and equipment	1,396	–
Other receivables	731	299
	<b>21,614</b>	21,855

Payment terms with customers are mainly on credit. Invoices to outside customers are normally payable within 60 days 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 net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	2010 US\$'000	2009 US\$'000
Age		
0 to 60 days	12,665	11,994
61 to 90 days	3,316	5,500
91 to 120 days	1,108	3,121
121 to 180 days	1,611	789
181 to 365 days	787	152
	<b>19,487</b>	21,556

Before accepting any new customers, the Group has appointed a special team to monitor the potential customer's credit quality and defines credit limits by customer. More than 85% of the trade receivables are neither past due nor impaired.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 18. TRADE AND OTHER RECEIVABLES (continued)

Included in the Group's trade receivables balance at the end of the reporting period are debtors with aggregate carrying amount of US\$2,398,000 (2009: US\$941,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there is no adverse change in the credit standing of the debtors from the date of credit was initially granted. The Group does not hold any collateral over these balances. The average age of these receivables is 209 days (2009: 196 days).

Aging of trade receivables which are past due but not impaired is as follows:

	2010 US\$'000	2009 US\$'000
Overdue by 1 to 60 days	1,611	789
Overdue by 61 to 180 days	787	152
	<b>2,398</b>	941

No interest is charged on trade receivables. The Group has made full allowances on all the receivables overdue for 365 days based on historical experience as such receivables are generally not recoverable. Allowances on trade receivables between 121 days and 365 days are made based on estimated irrecoverable amounts from the sales of goods with reference to past default experience.

Movement in the allowance for doubtful debts is as follows:

	2010 US\$'000	2009 US\$'000
At 1st January	266	111
Currency realignment	1	–
Impairment losses recognised on receivables	9	155
Impairment losses reversed	(25)	–
At 31st December	<b>251</b>	266

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 18. TRADE AND OTHER RECEIVABLES (continued)

Included in trade and other receivables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2010 US\$'000	2009 US\$'000
Japanese Yen	1,230	470
Hong Kong dollars	218	914

## 19. AMOUNTS DUE FROM RELATED COMPANIES

	2010 US\$'000	2009 US\$'000
A shareholder (note a)	5	–
Other related company (note b)	174	23
	179	23

Notes:

- (a) Being Ability Enterprise (BVI) Co., Ltd..
- (b) Being a company in which certain substantial shareholders of the Company, Ability Enterprise (BVI) Co., Ltd. and Asia Promotion Optical International Ltd., have controlling interests.

The amounts are unsecured, interest-free and repayable on demand.

## 20. AVAILABLE-FOR-SALE INVESTMENTS

	2010 US\$'000	2009 US\$'000
Unlisted securities: – unlisted fund	3,042	–

During the year, the Group purchased a number of units of an unlisted fund which mainly invests in debt securities and has no fixed obligation to pay dividends. Fair value of the investment was ascertained from quoted market prices over-the-counter.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 21. BANK BALANCES AND CASH AND ANALYSIS OF CASH AND CASH EQUIVALENTS

	2010 US\$'000	2009 US\$'000
Total bank balances and cash	117,818	130,963
Less: Bank deposits with original maturity of more than three months	(15,171)	–
Cash and cash equivalents	102,647	130,963

The bank deposits carry interest at prevailing market rates ranging from 0.45% to 2.29% (2009: 0.36% to 1.18%) per annum.

Included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2010 US\$'000	2009 US\$'000
Japanese Yen	345	701
Hong Kong dollars	1,490	5,742

## 22. TRADE AND OTHER PAYABLES

	2010 US\$'000	2009 US\$'000
Trade payables		
– related companies in which certain directors of the Company have beneficial interests	117	36
– others	15,850	18,113
	15,967	18,149
Payables for purchase of property, plant and equipment	3	3,320
Payroll and welfare payables	1,744	1,085
Other payables	2,598	2,722
	20,312	25,276

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 22. TRADE AND OTHER PAYABLES (continued)

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2010 US\$'000	2009 US\$'000
Age		
0 to 60 days	10,143	9,682
61 to 90 days	2,569	4,032
91 to 180 days	3,081	4,337
181 to 365 days	174	98
	15,967	18,149

The average credit period on purchases of goods is 60 days.

Included in trade and other payables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2010 US\$'000	2009 US\$'000
Japanese Yen	1,749	1,522
Hong Kong dollars	464	1,421

## 23. 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, 2009, 31st December, 2009 and 31st December, 2010	1,000,000	10,000	827,778	8,278
				US\$'000
Shown in the consolidated statement of financial position at 31st December, 2010 and 31st December, 2009 as				1,066

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 24. 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 Directors 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 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 the Scheme shall not in aggregate exceed 30% of the shares in issue from time to time. No option may be granted under the 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 shares 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 Board of Directors at date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest 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 shares.

Up to 31st December, 2010, no options were granted to directors, eligible employees or other outside third parties under the Scheme.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 25. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

At the end of the reporting period, 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	
	2010	2009	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Within one year	175	156	–	395	28	932
In the second to fifth year inclusive	39	–	–	–	–	–
	<b>214</b>	156	–	395	<b>28</b>	932

The leases are negotiated for an average term of 2 years (2009: 2 years) and rentals are fixed.

### The Group as lessor

At the end of the reporting period, the Group has contracted with tenants for future minimum lease payments in respect of investment properties which fall due as follows:

	2010	2009
	US\$'000	US\$'000
Within one year	282	289
In the second to fifth year inclusive	–	282
	<b>282</b>	571

The investment properties held have committed tenants for periods of average lease term of 1 year (2009: 2 years).

## 26. CAPITAL COMMITMENTS

	2010	2009
	US\$'000	US\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	172	171

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 27. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group and each of the employees 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.

## 28. RELATED PARTY TRANSACTIONS

Other than the amounts due from/to related companies as disclosed in notes 18, 19 and 22, the Group has the following significant transactions with related companies during the year in which a director of the Company, Mr. Cheng Wen-Tao, has beneficial interests:

Nature of transactions	2010 US\$'000	2009 US\$'000
Sales of goods	458	2,967
Purchases of raw materials	480	447
Property rental income	276	281
Management fee paid	1,416	1,416

The Company's directors represent the Group's key management and their emoluments for the year are set out in note 9.



# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

## 29. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries, all of which are wholly-owned by the Company, at 31st December, 2010 and 2009 are as follows:

Name of subsidiary	Country of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activities
<i>Directly held:</i>			
Yorkey Optical Technology Limited	Samoa/PRC	US\$550,001	Investment and property holding and trading of plastic and metallic parts and components of optical and opto-electronic products
<i>Indirectly held:</i>			
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\$20,680,000	Manufacture and sales of plastic and metallic parts and components of optical and opto-electronic products

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would in the opinion of the directors, result in particulars of excessive length.

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

## Financial Summary

	Year ended 31st December,				
	2006 US\$'000	2007 US\$'000	2008 US\$'000	2009 US\$'000	2010 US\$'000
<b>RESULTS</b>					
Turnover	82,220	124,003	123,425	87,760	<b>81,010</b>
Profit before taxation	22,867	29,079	21,513	9,131	<b>6,111</b>
Taxation	(211)	(1,401)	(641)	(302)	<b>(254)</b>
Profit for the year	22,656	27,678	20,872	8,829	<b>5,857</b>
	As at 31st December,				
	2006 US\$'000	2007 US\$'000	2008 US\$'000	2009 US\$'000	2010 US\$'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	181,800	204,470	204,900	193,796	<b>184,627</b>
Total liabilities	(16,481)	(27,082)	(27,867)	(25,551)	<b>(20,838)</b>
Net assets	165,319	177,388	177,033	168,245	<b>163,789</b>