Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

1. GENERAL AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company with limited liability on 13th October, 2004 under the Companies Law of the Cayman Islands and acts as an investment holding company. The principal activities of its subsidiaries are set out in note 26. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" of the annual report.

Through a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares (the "Group Reorganisation"), the Company became the ultimate holding company of the Group on 16th November, 2005. Details of the Group Reorganisation are more fully explained in Appendix VI to the prospectus of the Company dated 26th January, 2006 (the "Prospectus"). The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements for the year ended 31st December, 2005 have been prepared using the principles of merger accounting. The consolidated income statements, consolidated statement of changes in equity and the consolidated cash flow statements for the years ended 31st December, 2004 and 31st December, 2005 have been prepared on the basis as if the current group structure had been in existence throughout the periods or since their date of incorporation where this is a shorter period. The consolidated balance sheets of the Group as at 31st December, 2004 and 31st December, 2005 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those dates.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Turnover

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

Revenue recognition

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

Service revenue is recognised when the services are provided.

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

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

Investment properties

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

Property, plant and equipment

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

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

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

Land use rights

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

Inventories

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

Impairment of assets

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

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

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

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

Cash and cash equivalents

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

Financial liability and equity

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

Trade and other payables

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Equity instruments

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

Research and development expenditure

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

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

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

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

Foreign currencies

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

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

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

Operating leases

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segment

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segment

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

5. PROFIT BEFORE TAXATION

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

6. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS

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

	2005			2004		
	Fees	**Salaries and other benefits**	**Total**	Fees	Salaries and other benefits	Total
	US$'000	**US$'000**	**US$'000**	US$'000	US$'000	US$'000
Executive directors						
Mr. Cheng Wen-Tao	**3**	**–**	**3**	–	–	–
Mr. Tong Ching-Hsi	**3**	**–**	**3**	–	–	–
Mr. Liao Kuo-Ming	**3**	**–**	**3**	–	–	–
Non-executive directors						
Mr. Lai I-Jen	**3**	**–**	**3**	–	–	–
Ms. Wu Shu-Ping	**3**	**–**	**3**	–	–	–
Independent non-executive directors						
Ms. Chiang Hsiang-Tsai	**3**	**–**	**3**	–	–	–
Mr. Chou Chih-Ming	**3**	**–**	**3**	–	–	–
Mr. Lai Chung-Hsiung	**3**	**–**	**3**	–	–	–
	24	**–**	**24**	–	–	–

The five highest paid individuals are as follows:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

7. TAXATION

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

8. DIVIDENDS

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

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

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

9. EARNINGS PER SHARE

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

10. INVESTMENT PROPERTIES

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Plant and machinery	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1st January, 2004	3,833	2,728	477	435	20,832	28,305
Currency realignment	11	–	–	–	–	11
Additions	150	2,701	329	284	7,409	10,873
Disposals	–	(490)	–	–	(1,666)	(2,156)
At 31st December, 2004	3,994	4,939	806	719	26,575	37,033
Currency realignment	96	133	27	17	724	997
Additions	–	242	387	–	1,477	2,106
Disposals	–	(39)	–	(117)	(108)	(264)
At 31st December, 2005	4,090	5,275	1,220	619	28,668	39,872
DEPRECIATION AND AMORTISATION						
At 1st January, 2004	1,093	1,563	178	268	6,374	9,476
Currency realignment	1	–	–	–	–	1
Provided for the year	171	575	120	75	2,026	2,967
Eliminated on disposals	–	(303)	–	–	(92)	(395)
At 31st December, 2004	1,265	1,835	298	343	8,308	12,049
Currency realignment	38	57	11	8	257	371
Provided for the year	175	607	220	66	2,507	3,575
Eliminated on disposals	–	(35)	–	(105)	(54)	(194)
At 31st December, 2005	1,478	2,464	529	312	11,018	15,801
CARRYING VALUES						
At 31st December, 2005	2,612	2,811	691	307	17,650	24,071
At 31st December, 2004	2,729	3,104	508	376	18,267	24,984

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

11. PROPERTY, PLANT AND EQUIPMENT (continued)

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

12. LAND USE RIGHTS

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

13. DEFERRED TAXATION

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

	Difference in depreciation *US$'000*
At 1st January, 2004	345
Credit to income statement for the year	645
At 31st December, 2004	990
Currency realignment	26
Credit to income statement for the year	37
At 31st December, 2005	1,053

14. INVENTORIES

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

15. OTHER FINANCIAL ASSETS

Trade and other receivable

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

15. OTHER FINANCIAL ASSETS (continued)

Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry at the prevailing market interest rate of approximately 3.7% (2004: 3.5%) per annum. The directors consider that the fair value of the bank deposits at 31st December, 2005 approximates to the corresponding carrying amount.

16. AMOUNTS DUE FROM RELATED COMPANIES/SHAREHOLDERS

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

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

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

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

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Liquidity risk

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

Credit risk

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables estimated by the Group's management based on prior experience and their assessment of the current economic environment.

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

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

18. TRADE AND OTHER PAYABLES

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

19. SHARE CAPITAL

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

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

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

20. MAJOR NON-CASH TRANSACTIONS

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

21. OPERATING LEASE COMMITMENTS

The Group as leasee

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

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

The Group as lessor

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

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

22. CAPITAL COMMITMENTS

	2005 US$'000	2004 US$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	42	229

23. RETIREMENT BENEFITS SCHEME

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

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

24. RELATED PARTY TRANSACTIONS

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

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

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

25. POST BALANCE SHEET EVENTS

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

(a) On 20th January, 2006, a subscription agreement as more fully explained in paragraph headed "Summary of material contracts" in Appendix VI to the Prospectus, was entered into amongst Fortune Lands International Limited (the "Fortune Lands"), Richman International Group Co., Ltd. (the "Richman International") and the Company pursuant to which Fortune Lands subscribed for 13,125,000 shares of the Company at HK$38,400,000 and Richman International subscribed for 4,375,000 shares of the Company at HK$63,680,000 respectively on the same date.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

25. POST BALANCE SHEET EVENTS (continued)

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

26. SUBSIDIARIES

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

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

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