

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)

Yorkey Optical



Interim Report
2006

* For identification purpose only

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CORPORATE INFORMATION

Executive Directors

Cheng Wen-Tao
Tong Ching-Hsi
Liao Kuo-Ming

Non-Executive Directors

Lai I-Jen
Wu Shu-Ping

Independent Non-Executive Directors

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

Company Secretary and Qualified Accountant

Ng Chi-Ching, CPA (Aust.)

Registered Office

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

Place of Business in Hong Kong

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

Place of Business in the PRC

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

Auditors

Deloitte Touche Tohmatsu

Compliance Adviser

SinoPac Securities (Asia) Limited

Principal Bankers

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

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Stock Code

2788

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.

(incorporated in the Cayman Islands with limited liability)

Introduction

We have been instructed by Yorkey Optical International (Cayman) Ltd. (the "Company") to review the interim financial report set out on pages 5 to 16.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion 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.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 ("SAS 700") "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2006.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement for the six months ended 30th June, 2005 and the comparative condensed consolidated cash flow statement and condensed consolidated statement of changes in equity for the six months ended 30th June, 2005 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
22nd August, 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2006

	<i>NOTES</i>	1.1.2006 to 30.6.2006 US\$'000 (unaudited)	1.1.2005 to 30.6.2005 US\$'000 (unaudited)
Turnover		34,530	38,345
Cost of goods sold		(21,227)	(22,163)
Gross profit		13,303	16,182
Other income		2,826	992
Distribution costs		(461)	(836)
Administrative expenses		(5,057)	(5,730)
Profit before taxation		10,611	10,608
Taxation	6	(240)	(604)
Profit for the period attributable to equity holders of the Company		10,371	10,004
Special dividend	7	5,001	–
Earnings per share			
– Basic	8	US1.32 cents	US1.56 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2006

	NOTES	30.6.2006 US\$'000 (unaudited)	31.12.2005 US\$'000 (audited)
Non-current assets			
Investment properties		813	835
Property, plant and equipment		24,179	24,071
Land use rights		238	238
Deposits made on acquisition of property, plant and equipment		56	291
Deferred taxation		1,103	1,053
		26,389	26,488
Current assets			
Inventories		5,494	1,865
Trade and other receivables	9	15,670	19,117
Amounts due from related companies		618	305
Bank balances and cash		120,343	43,610
		142,125	64,897
Current liabilities			
Trade and other payables	10	10,400	9,656
Dividend payable		5,001	–
Taxation		775	666
		16,176	10,322
Net current assets		125,949	54,575
Net assets		152,338	81,063
Capital and reserves			
Share capital	11	1,069	67
Reserves		151,269	80,996
Equity attributable to equity holders of the Company		152,338	81,063

The Interim Financial Report on pages 5 to 16 was approved and authorised for issue by the Board of Directors on 22nd August, 2006 and are signed on its behalf by:

CHENG WEN-TAO
CHIEF EXECUTIVE OFFICER

TONG CHING-HSI
CHAIRMAN

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2006

	Attributable to equity holders of the Company						
	Share capital US\$'000	Share premium US\$'000	Special reserve US\$'000	Translation reserve US\$'000	Statutory surplus reserve fund US\$'000	Retained profits US\$'000	Total US\$'000
At 1st January, 2005	-	-	-	1,390	721	43,679	45,790
Exchange differences arising on translation of financial statements of foreign operations recognised directly in equity	-	-	-	(34)	-	-	(34)
Profit for the period	-	-	-	-	-	10,004	10,004
Total recognised income and expenses for the period	-	-	-	(34)	-	10,004	9,970
Issue of shares of a subsidiary	50	-	-	-	-	-	50
Dividend waived	-	-	-	-	-	474	474
At 30th June, 2005	50	-	-	1,356	721	54,157	56,284
At 1st January, 2006	67	-	19,350	1,264	1,315	59,067	81,063
Exchange differences arising on translation of financial statements of foreign operations recognised directly in equity	-	-	-	502	-	-	502
Profit for the period	-	-	-	-	-	10,371	10,371
Total recognised income for the period	-	-	-	502	-	10,371	10,873
Issue of shares	1,002	66,909	-	-	-	-	67,911
Expenses incurred in connection with the issue of shares	-	(2,508)	-	-	-	-	(2,508)
Special dividend	-	-	-	-	-	(5,001)	(5,001)
At 30th June, 2006	1,069	64,401	19,350	1,766	1,315	64,437	152,338

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

As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the Company's PRC subsidiary is required to maintain three statutory reserves, being a statutory surplus reserve fund, an enterprise expansion fund and a staff welfare and incentive bonus fund which are non-distributable. Appropriations to such reserves are made out of profit after taxation of the statutory financial statements of the PRC subsidiary while the amount and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiary by means of capitalisation issue. Since the date of establishment, no appropriation was made to the enterprise expansion fund and staff welfare and incentive bonus fund.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2006

	1.1.2006 to 30.6.2006 US\$'000 (unaudited)	1.1.2005 to 30.6.2005 <i>US\$'000</i> (unaudited)
Net cash from operating activities	10,329	8,222
Net cash from (used in) investing activities	753	(2,346)
Net cash from financing activities – issue of shares by way of placing and public offer	65,403	–
Net increase in cash and cash equivalents	76,485	5,876
Cash and cash equivalents at 1st January,	43,610	12,240
Effect of foreign exchange rate changes	248	(84)
Cash and cash equivalents at 30th June,	120,343	18,032

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30th June, 2006

1. GENERAL AND BASIS OF PRESENTATION OF INTERIM 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.

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 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 condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months ended 30th June, 2005 have been prepared using the principles of merger accounting, included the results and cash flows of the companies comprising the Group as if the group structure after the completion of the Group Reorganisation had been in existence throughout the period or since their date of incorporation where this is a shorter period.

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 condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention and in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards issued by the HKICPA. The principal accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2005 except for those as described in note 3 below.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

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

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴

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

² Effective for annual periods beginning on or after 1st March, 2006.

³ Effective for annual periods beginning on or after 1st May, 2006.

⁴ Effective for annual periods beginning on or after 1st June, 2006.

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.

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 Mainland China (the "PRC").

5. DEPRECIATION

During the period, depreciation of approximately US\$1,827,000 (US\$1,771,000 for the six months ended 30th June, 2005) was charged to the condensed consolidated income statement in respect of the Group's property, plant and equipment.

6. TAXATION

	1.1.2006 to 30.6.2006 US\$'000 (unaudited)	1.1.2005 to 30.6.2005 US\$'000 (unaudited)
The charge comprises:		
PRC income tax calculated at the applicable income tax rate on the estimated assessable profit for the period	(280)	(604)
Deferred taxation	40	–
	(240)	(604)

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 interim financial statements as the Group's profits neither arises in nor derived from Hong Kong during the period.

7. SPECIAL DIVIDEND

A special interim dividend of HK\$0.047 (approximately US0.60 cents) per share based on 830,000,000 shares was declared by the Company and approved by the Company's shareholders in its annual general meeting. This was payable to the shareholders of the Company whose names appeared in the Company's register of members on 20th June, 2006.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30th June, 2006 is based on the consolidated profit for the period attributable to equity holders of the Company of US\$10,371,000 (US\$10,004,000 for the six months ended 30th June, 2005) and on the weighted average number of 784,696,133 (640,000,000 for the six months ended 30th June, 2005) shares in issue during the period on the assumption that the Group Reorganisation and the capitalisation issue, as more fully described in Appendix VI of the Prospectus, have been effective on 1st January, 2005.

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

9. TRADE AND OTHER RECEIVABLES

	30.6.2006 <i>US\$'000</i> (unaudited)	31.12.2005 <i>US\$'000</i> (audited)
Trade receivables		
– related companies in which certain directors of the Company have beneficial interests	1,156	782
– others	13,503	17,335
	14,659	18,117
Other receivables	1,011	1,000
	15,670	19,117

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

	30.6.2006 <i>US\$'000</i> (unaudited)	31.12.2005 <i>US\$'000</i> (audited)
Age		
0 to 60 days	11,371	13,338
61 to 90 days	1,837	3,499
91 to 180 days	2,039	2,216
181 to 365 days	439	131
1 to 2 years	103	22
Over 2 years	239	270
	16,028	19,476
Less: Allowance for bad and doubtful debts	(1,369)	(1,359)
	14,659	18,117

10. TRADE AND OTHER PAYABLES

	30.6.2006 <i>US\$'000</i> (unaudited)	31.12.2005 <i>US\$'000</i> (audited)
Trade payables		
– related companies in which certain directors of the Company have beneficial interests	37	21
– others	8,343	6,387
	8,380	6,408
Balance of consideration payable for purchase of property, plant and equipment	181	437
Payroll and welfare payables	632	846
Other payables	1,207	1,965
	10,400	9,656

The following is an aged analysis of trade payables at the balance sheet date:

	30.6.2006 <i>US\$'000</i> (unaudited)	31.12.2005 <i>US\$'000</i> (audited)
Age		
0 to 60 days	6,585	5,404
61 to 90 days	372	715
91 to 180 days	1,423	289
	8,380	6,408

11. SHARE CAPITAL

	Authorised		Issued and fully paid	
	'000	HK\$'000	'000	HK\$'000
Ordinary shares of HK\$0.01 each				
– at 1st January, 2005	50,000	500	100	1
– increase in authorised share capital	950,000	9,500	–	–
– issued pursuant to the Group Reorganisation	–	–	52,400	524
– at 31st December, 2005	1,000,000	10,000	52,500	525
– issue of shares pursuant to a subscription agreement	–	–	17,500	175
– issue of shares on capitalisation issue	–	–	570,000	5,700
– issue of shares by placing and public offer	–	–	190,000	1,900
– at 30th June, 2006	1,000,000	10,000	830,000	8,300
				<i>US\$'000</i>
Shown in the balance sheet as				
– at 30th June, 2006				1,069
– at 31st December, 2005				67

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

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

On 9th February, 2006, 200,000,000 ordinary shares of HK\$0.01 of the Company (consist of 160,000,000 new shares and 40,000,000 sale shares) were issued at HK\$2.2 by way of placing and public offer.

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

12. RELATED PARTY TRANSACTIONS

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

Nature of transactions	1.1.2006 to 30.6.2006 US\$'000 (unaudited)	1.1.2005 to 30.6.2005 US\$'000 (unaudited)
Sales of goods	1,578	903
Purchase of raw materials	462	674
Property rental income	163	267
Management fee paid	599	615

The Company's directors represented the Group's key management and no emoluments were paid during the period (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Review

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

The turnover of the Group for the six months ended 30th June, 2006 was approximately US\$34,530,000, representing a decrease of approximately 10% compared with approximately US\$38,345,000 for the previous period. Without compromising with the decreased turnover, the profit for the period attributable to equity holders of the Company increased by 3.6% to US\$10,371,000 (2005: US\$10,004,000).

With the production almost reaching its full capacity, the turnover for the first six months has achieved to the closest level of that in the previous period while the gross profit margin has still maintained at its satisfactory level of 38.5%. The slightly lower turnover during the period was due to the fact that some customers had revised their sales strategy that the launching of their new models of products to the market has been postponed to the second half year. However, the margin for the profit before tax has increased to a record high of 30.73% (2005: 27.66%). The management believes that the turnover for the next six months will be improved with the enhancement of production facilities in various divisions of the Group.

Liquidity and Financial Resources

As at 30th June, 2006, the Group had current assets of approximately US\$142,125,000 (2005: US\$64,897,000) while current liabilities of approximately US\$16,176,000 (2005: US\$10,322,000). The current ratio of the Group was approximately 879% (2005: 629%).

The Group finances its operation with internally generated resources. As at 30th June, 2006, the Group had cash at bank and on hand of approximately US\$120,343,000 (2005: US\$43,610,000), and no bank borrowings.

Net cash generated from operating activities for the six months ended 30th June, 2006 was US\$10,329,000, representing an increase of 25.6%, compared with US\$8,222,000 for the last period, mainly due to growth in pre-tax profit.

Net cash inflow from investing activities for the six months ended 30th June, 2006 was US\$753,000, representing mainly the bank interest income from the net proceeds from the Initial Public Offer.

Net cash inflow from financing activities was US\$65,403,000 for the six months ended 30th June, 2006, representing the net proceeds from the Initial Public Offer on the Company's listing on the Main Board of the Stock Exchange on 10th February, 2006.

For the six months ended 30th June, 2006, the Group's aggregate bank balances and cash amounted approximately US\$120,343,000. The debt ratio (total liability divided by total assets) was approximately 9.6% with no bank borrowings. Therefore, the Board is in the opinion that the Group continues to be in a strong and healthy financial position and has sufficient resources to support its operation and meet its foreseeable capital expenditure.

Exchange Risk Exposure and Contingent Liabilities

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

As at 30th June, 2006, the Group had no significant contingent liabilities.

Employment, Training and Development

As at 30th June, 2006, the Group had a total of 2,874 employees. Remuneration packages of the Group are maintained at a competitive level to attract, retain and motivate employees and are reviewed on a periodical basis.

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

Outlook

Although the Group did not maintain a strong growth in results in the past six months, the Company's management is confident that the situation will be changed with the increasing number of new customers being introduced recently. Besides, the Group is now reaping a profit from its handsets components business previously developed. As above, the influx of sales orders from the existing and the new customers together with the continuous business development process being accommodated by the Company's expanding production capacity will create a promising result in a way forward.

Looking ahead, the industry has entered to the high season period of sales in the third and fourth quarters of each year, the Group will capture this opportunity by soliciting sales orders, especially, from the emerging markets where demand for the cameras handsets and digital cameras is enormous. The Group's management is confident that the business will continue to grow in the future and generate good returns to the Company's shareholders.

OTHER INFORMATION

Disclosure of Interests

Directors and chief executives of the Company

As at 30th June, 2006, the interest or short positions of the directors or chief executives 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"), 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	Number of shares/ underlying shares in the Company	Percentage of issued share capital in the Company
Mr. Cheng Wen-Tao	Interest of a controlled corporation	242,000,000 (Note 1)	29.16%
Mr. Cheng Wen-Tao	Interest of a party to an agreement to acquire interests in the Company required to be disclosed under section 317(1)(b) and s 318 of the SFO	120,000,000 (Note 2)	14.46%

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

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

Save as disclosed above, as at 30th June, 2006, none of the directors or chief executives of the Company had any long position in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

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

As at 30th June, 2006, none of the directors or chief executives of the Company, had any interest in short position in the shares, underlying shares or debentures of the Company or any interest or short position in the shares, underlying shares 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 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.

Substantial shareholders of the Company

As at 30th June, 2006, the interests or short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

1. Long positions 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 issued share capital in the Company
Ability Enterprise (BVI) Co., Ltd.	Beneficial owner	198,000,000	23.85%
Ability Enterprise Co., Ltd.	Interest of a controlled corporation	198,000,000 (Note 1)	23.85%
Asia Promotion Optical International Ltd.	Beneficial owner	242,000,000	29.16%
Mr. Cheng Wen-Tao	Interest of a controlled corporation	242,000,000 (Note 2)	29.16%
Mr. Cheng Wen-Tao	Interest of a party to an agreement to acquire interests in the Company required to be disclosed under section 317(1)(b) and s 318 of the SFO	120,000,000 (Note 2)	14.46%
Fortune Lands International Ltd.	Founder of discretionary trust	120,000,000 (Note 3)	14.46%
Fortune Lands International Ltd.	Interest of a party to an agreement to acquire interests in the Company required to be disclosed under section 317(1)(b) and s 318 of the SFO	242,000,000 (Note 3)	29.16%

Name of shareholder of the Company	Type of Interest	Number of shares/ underlying shares in the Company	Percentage of issued share capital in the Company
Mr. Tawara Seiichi	Interest of a controlled corporation	362,000,000 (Note 4)	43.61%
Ms. Huang Ching-Hui	Interest of a spouse	362,000,000 (Note 5)	43.61%
Ms. Arai Keiko	Interest of a spouse	362,000,000 (Note 6)	43.61%

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

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

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

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

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

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

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

Note 5: Mrs. Cheng, the spouse of Mr. Cheng, is taken to be interested in an aggregate of 362,000,000 shares in which Mr. Cheng is interested.

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

Save as disclosed above, as at 30th June, 2006, the Company had not been notified of any long position being held by any substantial shareholder in the shares or underlying shares in the Company.

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

As at 30th June, 2006, the Company had not been notified of any short position being held by any substantial shareholder in the shares or underlying shares in the Company.

Interim Dividend

The Company had paid a special interim dividend of HK\$0.047 (approximately US0.6 cents) per ordinary share amounting to HK\$39,010,000 (approximately US\$5,001,000) in respect of the year ending 31st December, 2006 on 20th June, 2006. The directors do not recommend the payment of another interim dividend for the period.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30th June, 2006.

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with the code provisions under the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The audit committee ensures adequate supervision of the Company's financial reporting processes, reviews the internal audit program and reports, ensures co-ordination between the internal and external auditors, and monitors the compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, internal rules and procedure approved by the Board.

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

The Group's annual results for the six months ended 30th June, 2006 have been reviewed by the audit committee.

Further, the interim results for the six months ended 30th June, 2006 are unaudited, but have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, in accordance with Statement of Auditing Standards 700 "Engagement to review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants.

Directors' Securities Transactions

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

Corporate Governance Practices

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

The Group has adopted the code provisions set out in the Code of Corporate Governance Practices as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the period covered by the interim report.