

## Report of the Directors

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

### Principal Activities

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

### Results

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

### Dividends

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

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

### Share Capital

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

### Reserves

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

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

### Investment Properties

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

### Property, Plant and Equipment

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

### Major Customers and Suppliers

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

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

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

# Report of the Directors

## Directors and Directors' Service Contracts

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

### Executive Directors:

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

### Non-executive Directors:

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

### Independent non-executive Directors:

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

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

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

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

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

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

## Report of the Directors

### Directors and Chief Executive's Interests in Shares

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

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

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

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

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

# Report of the Directors

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

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

As at 31st December 2006, none of the Directors or chief executives of the Company, had any interest in short position in the shares, underlying shares or debentures of the Company or any interest or short position in the shares, underlying shares 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.

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

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

## **Directors' Rights to Acquire Shares**

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

## Report of the Directors

### Substantial Shareholders

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

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

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

## Report of the Directors

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

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

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

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

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

Fortune Lands is also deemed to be interested in the 242,000,000 shares in the Company in which Mr. Cheng

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

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

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

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

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

## Report of the Directors

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

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

### Share Option Scheme

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

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

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

### Summary of Principal Terms of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Company to grant options to employees, senior executive or officer, manager

and directors of the Company or any of its subsidiaries and outside third parties who, in the sole discretion of the board of directors of the Company, have contributed or will contribute to the growth and development of the Group.

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

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

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

# 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 2006, the Group had the following connected transactions that were subject to the Listing Rules' reporting requirements for disclosure in this annual report.

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

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

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

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

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

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

## Report of the Directors

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

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

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

On 18th July 2005, Dongguan Yorkey, an indirect wholly-owned subsidiary of the Company, as landlord and Dongguan Guang Tong, an associate of Ability Enterprise BVI and Asia Promotion, as tenant entered into a lease agreement ("Lease Agreement") pursuant to which Dongguan Guang Tong has agreed to lease a property ("PRC Property") with a gross floor area of 10,519.41 sq.m. situated at Junction of Erhuan Central Road, No. 2 Xiaobian Industrial District, Changan Town, Dongguan Cith, Guangdong Province, the PRC as factory premises for the operation of the business of 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 Group entered into the Lease Agreement in order not to leave the floor area on the third floor vacant and unused.

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

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

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

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

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

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

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

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

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

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

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

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

## Report of the Directors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Report of the Directors

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

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

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

1. in the ordinary and usual course of their business of the Group;
2. either on normal commercial terms, on terms no less favorable to the Group than those available to or from independent third parties; and

3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### Management Contracts

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

### Directors' Remuneration

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

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

### Pension Schemes

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

# Report of the Directors

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## Sufficiency of Public Float

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

## Purchase, Redemption or Sale of Listed Securities of the Company

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

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

## Pre-emptive Rights

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

## Auditor

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

On behalf of the Board

**LIAO Kuo-Ming**  
*Chairman*

14th March 2007